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Xu Jiatun's Memoirs Continued

93CM0434A Hong Kong LIEN HO PAO in Chinese
7-12 Jun 93

[Selections from serialized memoirs: "Xu Jiatun Wants To Be a Witness to History. Xu Jiatun's Hong Kong Memoirs"]

[7 Jun 93 p 2]

[Text] **Stabilize the Big Bourgeoisie First (Part 1 of 2) Hong Kong People Fear "United Nations"; Confidence Not Easily Gained. United Front With Capitalists of All Stripes; Division of Labor for Joint Attack on Making Contacts**

I took to heart the Central Committee's intentions for a thriving and stable Hong Kong by setting about stabilizing the big capitalists among the Chinese bourgeoisie first of all.

The matter of greatest concern to the CPC Central Committee and State Council leaders about the big capitalists in Hong Kong, as well as the big overseas Chinese bourgeoisie in Hong Kong, is how much capital will flow out and how much will flow in. What is their motivation for this?

The well-known Hong Kong personages with whom Deng Xiaoping and other Central Committee people in responsible positions meet are recommended by the XINHUA Hong Kong branch. Most are deemed to be patriotic capitalists. The CPC responsible persons tell them about policies relating to China's recovery of Hong Kong, and listen to their views about Hong Kong retrocession. After returning to Hong Kong, quite a few such people began to transfer large or small amounts of funds outside Hong Kong. Such actions are not lost on society. They spark a transfer of capital and an emigrant surge in society. Therefore, stabilizing and winning over the big bourgeoisie has become the key to stabilizing society.

The difficulty working with such people lies in not easily gaining their confidence. This is because Communist Party theory and past actions have been, in essence, to counter the bourgeoisie, particularly the big bourgeoisie. Second, many Hong Kong capitalists have had experience with communization in inland China. They are wary of the CPC, and they are apprehensive that after 1997 the wealth that they have newly developed in Hong Kong might be confiscated by the CPC or come under "joint state-private ownership." A saying making the rounds in Hong Kong refers to the "United Nations," meaning that the CPC first use joint state-private ownership to become "united" with you, and then they "nationalize" you. Pao Yu-kang [0545 3768 0474] told me personally that "the people of Hong Kong fear the 'United Nations.'"

I believe that the "one nation, two systems" and the maintenance of the capitalist system without change in Hong Kong for a long time was formulated by Deng Xiaoping and other Central Committee persons in

charge out of an understanding of the frame of mind of Hong Kong's Chinese and foreign bourgeoisie to be able to use Hong Kong for a long time, and to stabilize all classes in society, particularly the bourgeoisie. Under this policy, the bourgeoisie are neither the antithesis of the revolution, nor are they just fellow travellers, but rather enforcers of this policy. The essence of "Hong Kong people ruling Hong Kong," or "Hong Kong being ruled by local people" is control exercised by all classes of people in Hong Kong, particularly the bourgeoisie themselves. This is the specific connotation of Deng Xiaoping's saying that the "four upholds" is not to apply to Hong Kong. Everything other than foreign relations and national defense that the government need not control will not be controlled insofar as possible. As Deng Xiaoping said, only when special circumstances occur that Hong Kong is itself powerless to control will the central government provide support and intervene.

Moreover, the central government not only will not change the system of private ownership in Hong Kong by instituting a so-called "United Nations," but during the next "communization" movement, it will accord Hong Kong new conditions for development. Hu Yaobang wanted me to "consume entirely" the spirit of the Central Committee policy, and I believe this understanding is close to that requirement. This was my basis for proposing the "one nation, two systems" plan at the enlarged meeting of the work committee in Shenzhen, and for formulating a "two wing" theory and principles for relying on both the working class and a united front. CPC Secretary General Zhao Ziyang subsequently approved this orally. The specifics will be provided in a subsequent article.

This was the basis on which I worked in united front practice in Hong Kong and Macao.

We began to devise ways to increase our contacts, particularly with some people who previously had had little or no contact with the CPC or XINHUA.

For historical and geographic reasons, the big Chinese capitalists in Hong Kong had become divided into different factions such as the Guangdong clique, the Shanghai clique, the Fujian clique, and the Shandong clique... The Guangdong clique also had a Chaozhou clique, a Panyu clique..., and the Fujian clique had an overseas Chinese clique... The overseas Chinese clique was further divided up into Indonesia, Thailand, Malaysia, and Singapore cliques. Some were pro-British, pro-Taiwan, pro-American, and pro-Japan. There were also some influential families holding official rank that had developed out of the former British compradore families.

We had wide-ranging contacts with united front personages in all walks of life. We tried to treat all with impartiality. The branch director and deputy directors divided up the work of keeping in touch regularly with social contacts for a gradual deepening of mutual understanding and an increase in mutual confidence and

friendship. My division of labor consisted of maintaining contact with 10 people including Pao Yu-kang, Li Ka-shing, Kuo De-sheng [6753 1795 0524], Shao I-fu [6730 6654 1133], Fok Ying-tung, and Cha Chi-min [2686 3444 3046]. These were all top personalities among the big Chinese capitalists. They were concerned about China's policies toward Hong Kong, and they were also concerned about economic and political developments in inland China. They frequently questioned me and discussed trends. They spoke little about business matters. Most of them were able and successful people in their businesses. In meetings with me, mutual political needs exceeded economic ones.

[8 Jun 93 p 2]

[Text] Stabilize the Big Bourgeoisie First (Part 2 of 2) Convince Chiang Wen-kui [5592 2429 2710] To Assist Feng Ching-hsi [7458 2529 4406] in Regaining Control of Shares; Use Special Funds as Collateral To Obtain Loans for Influential Feng Family

During the several years before and after 1983, which was during a period of economic difficulties in Hong Kong, they were anxious to "invest" in Hong Kong. Even though Deng Xiaoping asked "investors to relax," most of these capitalists did not "relax."

Naturally Deng Xiaoping's statements, which were based on "one nation, two systems," were made to stabilize the Hong Kong bourgeoisie, and they also showed that the main objects in the stabilization of Hong Kong were "investors"—the bourgeoisie.

Hong Kong's "gold king," Hu Han-hui [5170 3352 6540] invited a table full of friends to his home for dinner. "Gambling czar" Ho Hung-shen [0149 7703 8590] was there. He had a very good sense of humor, could tell jokes, and was a good conversationalist. He virtually "monopolized the stage" before dinner. He would finish telling a joke, everyone would laugh, and then he would tell another one making them laugh again. During the meal, Hu Han-hui touched on the reason he had invited us to dine. He asked: "How does the XINHUA director see Hong Kong's future?" Ho Han-hui was an old classmate and an old friend of Yang Ch'i [2799 1142]. He had probably learned from Yang Ch'i something about my situation, so he came straight to the point without worrying that I might think it strange. I also took advantage of the joyous atmosphere that Ho Hung-shen had heightened to reply simply with a laugh: "Those who have confidence will benefit most!" Possibly Hu Han-hui took to heart what I said. Before his death, he invited me to dine several times, repeating my same words each time in an expression of "appreciation." I know that he did a rather satisfactory business during those several years.

Not long after arriving in Hong Kong, I found that the political orientation of businessmen was frequently linked to their business. They inclined toward whomever supported them in business and financing. If many supported them, they looked to whomever provided the

most support. Frequently this was also the reason why some people inclined first one way then another, while some people maintained "neutrality." Being so-called "pro-Chinese," "pro-British," or "pro-American" was largely for this reason. I stated in the work committee that we should use our "resources" to foster a number of pro-China capitalists in Hong Kong and Macao. Chinese capitalized organs in Hong Kong should not fear being criticized for making a contribution to this policy. We should also use inland China "resources," which were larger, to win people's mind to make a contribution to a thriving and stable Hong Kong.

When the customers of Hong Kong Chinese capitalized organs became wealthy, inland China frequently said critically that "foreign trade corporations have fattened the capitalists." Such a criticism is wrong on the face of it. Unless capitalists see a chance to make a profit and to become rich, will they serve your foreign trade goals? My suggestion gained the agreement of most people engaged in financial and economic work.

For the previous several years, we had not only directly supported a number of people to various degrees in getting rich, but we made an effort to influence inland China policy decisions. This improved conditions for Hong Kong people to do business inside China, and helped the Hong Kong people become rich.

We also supported some people who got into economic difficulties. Some people criticized this method for being "political" and as a "rescue squad." They said it violated free market laws and might play a destructive role in the free market. Nevertheless, so long as it did not violate local laws and regulations, I figured this was being unnecessarily worrisome. The facts show that our several "fire fighting" ventures not only got victims out of difficulties to gain a new life, but made a new contribution to society as well. It also made quite a few capitalists believe that the CPC had truly changed and was no longer "sharing the wealth." It also helped them avoid bankruptcy, and supported them in continuing to become wealthy.

Feng Ching-hsi, a big businessman who is now dead, got into difficulties during cooperation with the American Merrill Lynch and a certain French bank. He lost his controlling rights and his leadership rights. Because of his previous behavior, public opinion was largely unsympathetic. Nevertheless, society praised his spirit of innovation and enterprise. Feng Ching-hsi came to the XINHUA branch seeking assistance. I held a meeting to discuss the matter. The persons in charge of the Chinese banking group as well as Cantonese colleagues in the branch were not interested. I convinced Chiang Wen-kui to help Feng, providing him with an opportunity to reorganize and regain control of the shares and to become chairman of the board. He went off happily to rest and travel where he caught cold and died. We continued to support his son in taking over his business.

Another Feng from an influential Hong Kong family also came to XINHUA to ask the Hong Kong and Macao Office for support when a financial crisis occurred in the family company. He was an old friend of China that the Hong Kong and Macao Office agreed to support. The banks disagreed. Not only the Hong Kong Chinese banking group, but the Beijing main office also did not agree to the granting of a loan. Li Hou of the Hong Kong and Macao Office interceded with the main office, which still refused to agree. Li Hou had no choice but to have Zheng Hua [6774 5478] inform me to consider what might be done. He handed me a hot potato. Since Feng was an old friend in trouble, I could not "let him die without coming to the rescue." I decided to disburse from the "special funds" that the Central Committee had given to the work committee the amount that he needed, depositing it in a bank as collateral, the bank disbursing the same amount as a loan in turn.

[9 Jun 93 p 2]

[Text] Winning Over the In-Between Level (Part 1 of 2) Suggestion That Leftist Education Group Leaders Emulate Szeto Wah. Martin Lee and Szeto Wah Withdraw From Draft Committee, but Remain Honored Guests

During the 1983 enlarged work committee meeting in Shenzhen, I noted in my political report that the main target to be won over for united front work was the in-between level, meaning the Chinese bourgeoisie. To bring about a new situation in united front work in Hong Kong, a breakthrough had to be made with the big bourgeoisie. Once representatives of the big bourgeoisie were willing to contact us, people from the medium bourgeoisie would be more willing to deal with us.

New breakthroughs were made in united front work during 1985. I asked Li Zhuwen [2621 0328 2429], the work committee deputy secretary responsible for united front work to develop united front work more, including religious work. I asked him to present a plan for discussion. He procrastinated for a very long time, failing to do anything right up to the time that he retired.

Qiao Zongzhun [8029 1350 0402] succeeded him in the division of labor to take charge of united front work. I asked him to draw up a united front work plan to consolidate both existing united front relationships and to expand new relationships, putting the emphasis on the development of the in-between (the middle) class.

We tried to divide the Hong Kong in-between class into three groups: upper middle, middle middle, and lower middle. We decided that the in-between class was a moving and transitional class. A fairly large number of people might move from the lower middle to the middle middle and the upper middle class. Some people were already nearing or had become part of the upper stratum of society. Some people also moved downward from the upper middle to the middle middle and the lower middle class.

One universal feature of the in-between class was its efforts to climb. Its thoughts inclined toward climbing up the existing social ladder. The number of dissatisfied people were also increasing with each passing day. They wanted a democratic environment of relatively equal development.

During the negotiation battles between China and the United Kingdom about the retrocession of Hong Kong, they showed sharp differences and splits about maintaining and changing the current character of society. Their independence on political orientation was not at all great, and it was wedged into the confrontation between the two great political powers (China and the UK), thus making escape from the influence of the two to act truly independently virtually impossible.

Among the in-between level exists a universal fear of communism and a rejection of communism. This made it relatively easy for the UK and relatively difficult for China to win it over. Since most of them are western educated, and have benefitted from the development of the Hong Kong British economy, this plus the frequent campaigns since founding of New China has damaged China's ability to influence them.

We launched in-between level united front work in two ways. One way involved the work foundation. We improved the work plan of "leftist" social groups, emancipating ourselves from the limitations of being "both left and narrow." The second way involved the work emphasis. We improved our contacts with social groups of all kinds.

In this connection, XINHUA set up internally a science and technology department and a literature and education department, and it improved its recreation and sports department. The focus was on improving work on the in-between class in the science and technology, literary, and sports fields.

Teaching and administrative staff in Hong Kong's middle and primary schools were both targets for mass work and for united front work. I held discussion groups with "leftist" education group persons in charge, recommending that they break out of their own circle to make the broad masses of middle and primary school teachers and administrative staff throughout the city targets of their work. They should do as Szeto Wah did to unite an overwhelming majority of teachers and administrative staff throughout the city. Hong Kong's middle and primary school teachers and administrative staff receive fairly high salaries, and their livelihood is fairly stable. Nevertheless, some people are dissatisfied with their condition, and long to move upward. Some people may be dissatisfied with British rule in Hong Kong. We should understand them better, and organize them according to their desires.

I said: "During the War of Resistance Against Japan, I started a base behind the enemy lines where I worked first with middle and primary school teachers to produce cadres. Dissatisfied with their situation, they joined the

revolution to find a way out for themselves. Although taking back Hong Kong and fighting guerrilla warfare behind the enemy lines are horses of two different colors, this experience provides useful lessons."

I also contacted representative figures in quite a few different social groups, invited them to dine, and exchanged views with them. In cases where our views differed greatly, I did not talk politics. I only had an emotional relationship with them to let them realize that differences in political views did not rule out getting along together. After Martin Lee and Szeto Wah withdrew from the crafting committee, I invited them to dine as formerly. When Li Feng-fei and Maria Tam approached me to talk politics, as well as feelings about the Chinese and the British, I patiently heard them out and replied, expressing China's position on the issues concerned. When I invited several "new stars" from the political arena in the New Territories to dine, Legislative Council member Huang Hung-fa [7806 1347 4099] criticized China for not paying attention to popular feeling in Hong Kong, and praised the British government in Hong Kong. Although I disagreed with his view, I did not argue with him.

[10 Jun 93 p 2]

[Text] **Winning Over the In-Between Level Arrangements for Wang Mingquan [3076 2494 5425] To Become an NPC Delegate; Inability To Make a Breakthrough in Getting Together With People Like Cheng Long [1052 2893] a Matter of Regret (part 2 of 2)**

I also attended meetings and made speeches at various social groups such as the Lions and the Chamber of Commerce of Outstanding Hong Kong Young People at which I conveyed the serious importance with which the Chinese government regarded them. The first mentioned group is an international social group, and the second group is a fellowship organization that outstanding young people from previous years have formed. (Each year 10 outstanding Hong Kong youth are selected). Both Li Zhuming [2621 2691 6900] and Li Pengfei [2621 7720 7378] are members.

The pressure group, "Meeting Point," invited me to attend its first anniversary meeting, and I happily went to the meeting. The decor at the meeting place was simple, and I would guess that fewer than 100 people were there. I took a seat at random at a long table to listen to the deputy of the organization, Yang Sen [2799 2773] give a speech. In his speech, he criticized China. Some CPPCC members, who had also responded to the invitation to attend the meeting and who witnessed this situation, greeted me amiably after the meeting and said: "How come you also attended such a meeting? I'll bet you won't come to another one." I appreciated their goodwill, and I laughingly nodded my head and thanked them. Hong Kong reporters were surprised that I would attend such a meeting. There were only two or three reporters there, but they came over to interview me. They asked: "Why did you come?" I said: "They invited

me to come, so I came." Then they asked me: "If other pressure groups invite you, will you go?" I replied: "If they invite me, I will go." Unfortunately, there were no further invitations.

Each year, we always invited as much of the cream of the scientific and technical community, writers and artists, and the news media that XINHUA branch could invite to our lunar New Year activities. Several times I also attended performances of the Beijing opera amateur performers opera singing society. I also sponsored performances of the Cheng school of Beijing opera at the Chizhu Guest House to which I invited scores of Cheng school amateurs to exercise their voices and please their ears. Unexpectedly, the famous movie star, Xia Meng [1115 1125], was also a Cheng school amateur performer who brought down the house with the single song, Suolinnang.

Participation in the performances of singing stars to show our esteem for the performing arts was also one of our tasks. I very much appreciated the simple yet vigorous and rich style of singing of the female alto, Xu Xiaofeng [1776 1420 7685], and I went to two of her performances in Hunghom. I also went to hear performances given by Lin Zixiang [2651 1311 4382] and Zhong Zhentao [6945 6966 3447] I had also intended to go to a performance by Mei Fengfang [2734 5333 5364] to "give support," but since I had to go to inland China, I was unable to do so. I very much like to hear her sing.

To win the friendship of the performing arts world, I took part in Zhong Zhentao's marriage, and I made special arrangements for radio and television gold medal holder Wang Mingquan to be an NPC delegate. Wang Mingquan is politically in the middle; he is somewhat representative of the performing arts world. Formerly, most of the Hong Kong performing arts representatives in both the NPC and the CPPCC had been "leftist" personages, but I was anxious to break this mold. However, efforts to get a larger number delegates to the NPC did not succeed; all that could be done was to ask existing delegates to yield their positions. I also very much appreciated the artistic achievements of the existing delegates, so it was only because of the job that I had no choice but to propose this course. In the end, this did not succeed either.

Our inability to get close to movie stars like Cheng Long remains a matter of regret to this day. It was probably because the Taiwan government at that time would not permit the showing of films in Taiwan if the stars had contacts with the mainland that we could not make contact with them.

Several institutions of higher education were weak links in our work. Relations with Hong Kong University and Chinese University were better than with most. We enjoyed friendly relations with a succession of chancellors of both schools. Huang Li-sung [7806 7787 2646], former chancellor of Hong Kong University, and Ma Lin

[7456 5259], the former chancellor of Chinese University were both members of the Basic Law Drafting Committee. Nevertheless, in terms of total numbers, our contacts with professors at both schools, and our ability to make friends seemed slight.

[11 Jun 93 p 2]

[Text] No Forgetting Old Friends; Bank of China Helps Li Mingze Open a Hotel Together With Hong Kong Capitalists. Xu Jiatun Assists Fok Ying Tung [7202 5391 2639] Go to Beijing for Cancer Treatment

In the course of doing our job of making new friends, we heard reactions from some united front target personalities. They expressed dissatisfaction saying that we "paid attention to new friends while cold shouldering old friends."

After hearing this reaction, I felt that although we did not purposely ignore old friends, could it be that such a situation did exist in fact? In a work committee meeting, I clearly called for a work policy of "making new friends but not forgetting old friends."

When Li Ming-tse was alive, XINHUA had few social contacts. If XINHUA issued invitations for the spring tea tasting but expected a small turn out, Li Ming-tse would issue some invitations. In this way, he invited some people who would not respond to a XINHUA invitation, giving the responsible persons at XINHUA a chance to meet them. After Li Ming-tse's death, his wife carried on his work, continuing to play this role. She issued invitations from the New Year in 1984 and again in 1985, but by 1985 there was really no longer a need for her to do so. XINHUA opened up social contacts, and far too large a number of people were invited. However, to show respect for the help that Li Ming-tse had formerly given China and XINHUA, and cherish his memory and express thanks, I agreed to the Coordination Department's suggestion that Mrs. Li should continue as before.

Before he died, Li Ming-tse took the lead in working with other big capitalists in Hong Kong in the joint venture operation of the Guangzhou Garden Hotel in Guangzhou. This was decided upon during the period when Xi Chongxun [5045 1814 8113] and Yang Shangkun [2799 1424 2492] were respectively first and second Guangdong Province CPC secretaries, and when Yang Shangkun was concurrently first secretary of the Guangzhou City CPC Committee.

The Hong Kong investment of capital in the Guangzhou Garden Hotel was 51 percent—a controlling interest. The actual amount of capital invested was relatively small, however; most of it was Bank of China loans, which were also vouched for by the Chinese side.

After building the project began, because Hong Kong was in an economic slump and inland China also began an economic retrenchment, the Bank of China decided it would no longer guarantee foreign investment in projects

in China. Hong Kong was also experiencing difficulty in increasing investment, but more capital had to be invested for the project to continue. Thus, Guangzhou City established a corporation to run this project, which recommended that unless more investment was forthcoming from Hong Kong, and that unless Hong Kong yielded some of its shares, Guangzhou would continue the project alone.

By this time, Li Ming-tse was already dead, and Mrs. Li was in charge of matters on behalf of the Hong Kong investors. She sought out Yang Shangkun to lodge an appeal. Yang Shangkun referred the matter to me, asking that I help solve it. Actually, what he wanted was for me to discuss the matter with the parties concerned in Guangdong to obtain their support for the original agreement in support of the Li family. Yang Shangkun himself may have brought the matter to the attention of the Guangdong parties. I brought up the matter with the Guangzhou City CPC Committee secretary at that time, Ye Xuanping [0673 6693 1627], and I also brought it up with the deputy mayor in charge of such matters at the time, Zhu Senlin [2612 2773 2651], (who is currently the provincial governor of Guangdong). After repeated difficult representations, the original agreement was upheld in the end.

During the lunar New Year each year, I called on some famous old friends to wish them seasons greetings. One such was a patriotic businessman in the Chinese Chamber of Commerce who was first to fly the Chinese flag back then, Kao Chuo-hsiung [7559 0587 7160], as well as Fei I-min [6316 1744 3046], An Tzu-chieh [1344 1311 0094] (chairman of the Nanlian Group and member of the CPPCC Standing Committee), and Li Tzu-sung [2621 1311 6139] (the director of Hong Kong WEN HUI PAO, etc. to show my respect for old friends. After Fei I-min died, I continued to visit his home to wish his wife, Elder Sister Su, a happy New Year, and so that units concerned would regularly be sure to show concern for her feelings and see that she was provided for.

Ho Yin [0149 4905], chairman of the Macao Chinese Chamber of Commerce, and Fok Ying-tung, chairman of the Hong Kong Chinese Chamber of Commerce and member of the CPPCC Standing Committee, were both old friends of China. Ho Yin was very popular in both Macao and Hong Kong. Although of lowly origins, he handled quite well relations at the top, middle, and lower levels, and on the left, in the middle, and on the right. China had always depended on him heavily for work in Macao.

In 1983, he and Fok Ying-tung both contracted cancer at the same time. After learning about it, I immediately suggested to them that they go to Beijing for treatment. I said that I was willing to make a report to the CPC Central Committee and the State Council asking that special treatment be accorded them. In the end, Fok Ying-tung agreed, but He Yin decided to go to the United States for treatment.

Before Fok Ying-tung went to Beijing for treatment, I sent a telegram to the CPC Central Committee and the State Council reporting this matter, and I sent an emissary to the Ministry of Health and to the Hong Kong and Macao Office to intercede and make arrangements. After receiving my telegram, the CPC Central Committee and the State Council prepared special memoranda. The Ministry of Health was consequently extremely concerned and gathered together renowned medical doctors from all over the country to come to Beijing to treat Fok Ying-tung. Fok Ying-tung was restored to good health. After returning to Hong Kong, he expressed thanks to me for using four characters meaning "kindness that gives new life." I demurred saying this was the result of the CPC's and the State Council's concern for him.

Ho Yin was not cured in the United States. Unfortunately, he died after returning to Hong Kong. His death, like that of Li Mingtse, was a great loss for China's work in Hong Kong and Macao. I took part in the Hong Kong memorial service, and I was also a pallbearer.

After Ho Yin's death, a family dispute erupted, and his business interests also encountered some difficulties. Following discussion in the work committee, we decided to support his son, Ho Hou-hua [0149 0624 5478], and to help him solve his problems with banks and continue Ho Yin's endeavors.

Many leftist industrialists and businessmen in Hong Kong depend on Chinese goods, i.e., they are agents, wholesalers, or retailers of Chinese goods. Following reform and opening to the outside world, with the diversification of foreign trade channels, which were no longer entirely under the control of the Ministry of Foreign Trade and the China Resources Company, government units of China's various provinces and cities did their own import and export business in Hong Kong. They were their own agents. Thus, the former Chinese agents, wholesalers, and retailers of Chinese goods were hurt quite a bit. Not only did their business profits decline, but they also felt cold shouldered politically. This was because formerly XINHUA maintained contacts with them, but I had gone to Hong Kong to bring about a new situation, the key to which was working with the big bourgeoisie and big rightists. This meant a corresponding decrease in contacts with them. After learning of their reaction, I paid more attention to work in this regard. In work committee meetings, I said we must avoid cold shouldering them. We must contact them more, be more concerned about them, and help them solve their problems. In particular, we had to show more respect for our old relationship with the Chinese Chamber of Commerce, showing it more economic concern.

Consequently, XINHUA increased its contacts with them, showing concern for their interests. I also reminded Zhang Jianhua [1728 1696 5478], the general manager of China Resources, and Jiang Wengui [5592 2429 2710], of the Bank of China's Hong Kong and

Macao Management Board, to be sure to favor them in foreign trade and finance to help these old friends solve their real difficulties.

[12 Jun 93 p 2]

[Text] New Analysis of the Working Class One Nation, Two Systems Is a Continuation of the Development of Capitalism. Deng Xiaoping Does Not Apply the "Four Upholds" to Hong Kong

At an enlarged meeting of the work committee in Shenzhen, I formally proposed implementation of the "one nation, two systems" policy, relying on "two wings." One wing was the working class, and the other wing was the widespread development of a patriotic Hong Kong and Macao united front. This was a very great "departure" from the formulation that had been consistently used in the past of "wholehearted reliance on the working class." This stemmed from a change in my perception. This "departure" was based on the following:

First, the Central Committee had decided that the capitalist system would continue unchanged in Hong Kong for 50 years or longer, that "Hong Kong people ruling Hong Kong" would be practiced locally; and that the regime in the future special zone would be primarily bourgeois with the working class taking part. It would be a regime of all classes in partnership, but would be basically bourgeois in character. This would require a foundation of wide-ranging united front work employing patriotic and Hong Kong-loving people.

By contrast, were there to be "wholehearted reliance on the working class," the working class playing the main role, the organization of a special zone regime of "Hong Kong people ruling Hong Kong" would become the "Hong Kong Communists ruling Hong Kong." The regime would have a working class character. Obviously, this would not be in keeping with the "one nation, two systems" plans and policies that the Central Committee had decided.

Second was a new analysis of the Hong Kong working class. Formerly, the Hong Kong XINHUA branch leaders had been content to make a division between blue collar workers and white collar workers (the blue collar workers engaged in physical labor, and the white collar workers engaged in mental labor). They did not bother with nor analyze the class in between these two classes. When I first came to Hong Kong, I also looked at problems and prepared plans on this basis. After realizing not long afterward that Hong Kong had a middle class, I felt that limiting Hong Kong's working class to somewhat more than 800,000 industrial workers was clearly not in keeping with the class situation that had come about.

The area covered by the term "worker" in Hong Kong is very broad. People who work in government, enterprises, and social groups are all included in the worker category, the number totaling not just 800,000 but more

than 2.8 million. Hong Kong also has a term, "working royalty," by which is meant middle and high level managers in enterprises and government organs. Although not investors or capitalists, their salaries are high, ranging from tens of thousands to hundreds of thousands, or even nearly HK\$1 million a month. Analyzed in class terms, terming the middle class an in-between class is actually more in keeping with reality. To use the terminology of the Communist Party, some of them already belong to the worker nobility. They are close to being bourgeois. The ideology of most of them is no longer entirely that of workers, but rather close to that of the bourgeoisie. Broadly speaking, reliance on the working class should include reliance on the middle class, or on the middle and lower levels of the in-between class.

Realistically, many people in Hong Kong society are no longer workers. From a certain point of view, they are investors; therefore, the working class has both developed within capitalist society, and it has also splintered. What a substantial number of them pursue and respond to is not socialism, nor is it entirely capitalism. They pursue real interests. The situation is more complex than it was formerly imagined to be.

Maintenance of the capitalist character of the Hong Kong government for a long period without change means safeguarding the interests of the bourgeoisie. This contradicts, at least for the present, Marx's thesis that the

working class is the grave digger for capitalism. Neither the actual present situation nor the "one nation, two systems" plan are "burials." Instead, they are a continuation of the development of capitalism. "Burial" is at least a long time in the future.

It was on the basis of this perception that we proposed the following for the relationship between the workers and the capitalists—i.e., the relationship between the working class and the bourgeoisie—for the present and under the "one nation two systems" after 1997. So long as capitalism steadily thrives and develops, it will be necessary to improve steadily the living conditions and the quality of life of both workers and the bourgeoisie. This is the only way to improve steadily relations between workers and capitalists so that relations between the two do not deteriorate or even become antithetical, to maintain peaceful co-existence in Hong Kong for a long time, to maintain economic benefits for both workers and capitalists, and to maintain political cooperation between them. As a result of this decision, working class participation in the regime under "one nation, two systems" means cooperation, supervision, and influence, rather than leadership or practice of a dictatorship of the proletariat.

I realize that this is what Deng Xiaoping meant when he spoke about not applying the "four upholds" ideology in Hong Kong.

PROVINCIAL

Commentary on Ways To Accelerate Reform

93CE0838A Zhengzhou HENAN RIBAO in Chinese
13 Aug 93 p 1

[Commentary: "Reform Should Have Substantial Progress"]

[Text] Contradictions and problems have emerged in the current economic life. They are created by the delay of several reform measures in the transition from a planned economy to a market economy, and the basic reason is that the economic system still is not in order. So, we should shift more effort from stressing speed and stressing projects to stressing reform of the economic system, and seek out a way to accelerate the transition from the old to the new system. For this reason, we should achieve substantial progress from five aspects of reform.

We should emphasize transforming the stock system. There have been some breakthroughs in the reform of the organizational form of state enterprises and the manner of managing assets. Although in 10 years of reform we have achieved splendid success, practically speaking, the issues of enterprises' independent management and responsibility for their own profits and losses still have not been truly settled. Experience proves that implementing a stock system is a good form of separating government from enterprises and helps enterprises to accomplish the "four selfs" by converting their management mechanisms and is an important measure for intensifying the reform of state enterprises. So, in the next six months, all cities and localities, departments and enterprises should make a concerted effort to enhance leadership, boldly experiment, maintain strict standards, and steadily advance. In the current stock system reform, the main thing is to overcome the fear of the erosion of state assets, the fear of losing power on the part of departments in charge, and the fear of taking risks and that the current policy is incomplete on the part of some enterprises.

In adjusting the structure of agriculture and developing the rural household company system, we should achieve rather great progress in moving agriculture toward the market. In this respect, first we should fully respect peasant production and management autonomy and guide the peasants in adjusting their agricultural planting structure in accordance with market demands, encourage peasants to vigorously develop high efficiency agriculture, agriculture that will earn foreign exchange, animal husbandry, lumber and fruit trees, and courtyard economies. Second, we should develop diversified service organizations and support expanded peasant entry into the area of circulation, and implement various forms of management service activities. We should actively establish a rural household company economic service system and gradually form integrated production, supply, and sales. Third, we should vigorously

develop rural enterprises and we should have multiple wheel drive and simultaneously engage in multiple tasks, and emphasize the development of peasant joint stock enterprises. Guided by the market and centering on increased peasant yield, we should accelerate the adjustment of the agricultural structure, move the peasants toward the market, and encourage and assist the peasants in getting rich and approaching a comfortable standard of living.

We should adapt to the reforms required of party and government organizations and take even greater steps in allocating organizational cadres to set up tertiary industries. With conversion of government functions and organizational reform, personnel allocation is an indispensable link in organizational reform. If we do a good job on this task, it will help us to streamline administration and convert functions. It also will help us to arouse the enthusiasm of spare personnel and promote the development of the socialist market economy. As regards future allocation of organizational personnel to start economic entities, we must uphold the principle of separation of government and enterprises and not permit "sign turning companies." As regards organizations allocating personnel to start economic entities that initially have difficulty, they should give appropriate support to such aspects as start up funds, sites, and loans.

Centering on thoroughly implementing the scientific and technical pre-construction strategy, we should have some breakthroughs in the development of privately operated scientific and technical enterprises. Privately operated scientific and technical enterprises are products of China's reform of the science and technology system and the economic system. By developing privately operated scientific and technical enterprises, we fully arouse the enthusiasm and the creativity of various types of scientific and technical personnel and accelerate the conversion of scientific and technical achievements to productive forces. So, governments and relevant departments at every level should stand in the front ranks of reform, conscientiously improve their leadership, closely cooperate, and combine their regions' scientific and technical, personnel qualification, and resource characteristics to device a plan for the development of privately operated scientific and technical enterprises, perfect relevant policies and measures, promptly study and resolve reform and development issues, and ensure that privately operated scientific and technical enterprises can compete on an equal basis with state enterprises so that they can become new economic growing points for Henan Province.

While accelerating the development of rural enterprises, we should cause urban and rural collective enterprises, and individual, private, and "partially or wholly foreign owned" enterprises and their mutual stock participation "mixed ownership system structure" to undergo rather great development. Every locality, in accordance with the actual situation and suiting measures to local conditions, should vigorously develop whatever type of economy will help in the development of productive

forces and improvement of results. We should encourage diverse economic components to compete on an equal basis and develop together.

High-Tech Industrial Groups in Hubei

93CE0838B Wuhan HUBEI RIBAO in Chinese
8 Aug 93 p 1

[Article by correspondent Liu Licheng (0491 4539 2052) and reporter Chen Yan (7115 1484): "Hubei Province Forms Exceptional New High Technology Industrial Groups"]

[Text] [Editor's Note]: On 8 August 1988, the party Central Committee and the State Council formally approved the implementation of China's "Torch" Plan. This is an important science and technology plan with the objective of promoting the commercialization, the industrialization, and the internationalization of China's new high technology achievements. By implementing the Torch Plan, Hubei Province has given impetus to the establishment of a new high technology development zone and promoted the high starting point transformation of traditional industries so that a good foundation can be laid for converting new high technology achievements to productive forces. Beginning today, we will put out a series of reports on "the Torch Plan in Hubei" for our readers to commemorate five years of implementing the "Torch" Plan. [end editor's note]

Beginning with the implementation of the Torch Plan and relying on the new high technology industrial development zone, Hubei Province has formed exceptional initial scale industrial groups in such high technology areas as fiber optic communications, lasers, microelectronics, new materials, integrated electromechanics, biological engineering, and precise engineering. Presently, 290 new high technology enterprises are growing to become a vital force in Hubei Province's economic development, and a group of new high technology products are entering international ranks.

In the five years that the "Torch" Plan has been in effect in Hubei Province, we have gone from not having provincial new high technology industries to having them and from the initial stage to entering a period of healthy and strong growth, becoming a new growth point in Hubei Province's economic development. As of the end of 1992, Hubei Province had implemented a total of 198 Torch Plan projects, 63 of them at the national level and 135 at the local level, and had invested 335 million yuan. Statistics on the projects already put into production reveal a total output value of 714 million yuan, profit tax of 197 million yuan realized, and \$43 million in foreign exchange earned and foreign exchange saved.

"Develop high science and technology and achieve industrialization." Based on Hubei's scientific and technical characteristics and advantages, Hubei Province has formed a large triangular new high technology industrial

zone with Wuhan at its center and supported by Xiangfan, Huangshi, and Yichang, and by drawing on experience gained in these key points, diffused and dispersed new high technology to the whole province, so that Hubei Province's new high technology industries can have their climate formed in key zones and their characteristics formed in key areas, and form key industries of scale and form a fist for the development of key products.

With Wuhan Post and Telegraph Scientific Institute, one of the three largest fiber optic communications research centers in the country, taking the lead and supported by Changfei Fiber Optic Cable Corporation, Hubei Province has formed a complete system from fiber optics, optical cable, and photoelectric terminals to associated devices and raw and supplementary materials with more than 10 units engaged in fiber optic communications research, development, and production. This year the value of output of the fiber optic communications industry could reach 500 million yuan. In the area of laser technology, Huazhong Engineering University has established a key national laser technology laboratory and laser processing center. The 10,000 watt carbon dioxide laser device that they produce is the most powerful laser device in the country and has entered advanced world ranks. In addition, Hubei Province has established superiority in the areas of biological technology, new materials, integrated electromechanics, and electronic information, and at the end of 1993, these industries could have a value of output of 1.2 billion yuan.

FINANCE, BANKING

Article Links Fund-Raising, Speculations to Financial Disorder

93CE0810A Beijing JINGJI RIBAO in Chinese
28 Jul 93 p 1

[Article by Ding Pinyu (0002 0756 0151): "When the Financial System Becomes Disorderly...."]

[Text] Mention inflation today and many people would see the shadow cast by the disorderly financial system.

How does financial disorder manifest itself? How serious is it? Around 1988 when inflation appeared in China, a group of "speculators" and "briefcase companies [companies in names only]" specialized in dealing with materials in short supply such as chemical fertilizer, steel, cement, automobiles and so forth, and they were called "materials speculators"; today such people are called "financial speculators" who deal in stocks, commodity futures, real estates, etc. According to analysis of some people, most of the "financial speculators" concentrate on management of speculative ventures and entrepreneurial economic enterprises such as real estate, development enterprises, stocks and futures brokerages; they are very much different from the earlier type. In the hot, speculative enterprises, capital funds are like the surging

waves which finally break through the gates which control money and credit, seriously disrupt the financial order and affect the stability of the whole economy.

The reality of the situation is frightening. Take the real estate fever for instance. At the end of 1991, there were about 3,000 real estate enterprises, big and small, in China; their number shot up to close to 10,000 in 1992. Some statistics indicate that in 1992 investment in commercial real estate in the country increased by 94.4 percent, and the January-October period alone showed an increase of 82 per cent over the same period of 1991, far exceeding the normal 33 percent range of fixed asset investments in real properties. Because housing prices have generally increased over 50 percent since the end of 1990, many newly constructed buildings were not fully occupied; there was no return on the investment, to say nothing of the economy benefitting in any way. In one province, investment in real estate increased by 111.58 percent in 1992 alone. In another economically not developed province, 4.02 billion yuan went into real estate investment last year, of which 38 percent or 1.5 billion yuan were loans from banks. In one city, 8.4 billion yuan was allocated for real estate development in one year; of that amount, 26 percent or 1.9 billion yuan were bank loans. When this type of investment reached such fevered pitch, it would certainly cause capital shortage in other areas.

Next, let us look at the development zone fever. This fever is spreading rapidly from the coastal area to the interior, and sponsorship from the central government and provincial levels down to the township and even village levels. The types of development zones are numerous and varied and are called by different names. Just counting the development zones in places such as Hunan, Anhui, Liaoning and Zhejiang, there are some 530 of them. Of the 211 development zones sponsored by Hunan Province, 68 were launched by townships and villages. If these zones were all to be developed, the required capital would be as much as 300 billion yuan. Some of the development zones do not follow government regulations, and would reduce or waive taxes at will; some of the zones take an "installment approach" and waive taxes for three, or five years. Statistics indicate that in China today the total number of development zones of different types and levels of sponsorship has already exceeded 8,000, and that 15,000 square kilometers of land has been set aside for the zones that have been approved; many development zones, however, would simply "block off as much land as possible," but when they fail to generate projects or attract capital to the zones, the land then remains idle even today.

At the same time, because measures to reform property rights are not fully operative, and the reform and reorganization of the state-owned enterprises have not all been effectively implemented, rampant stock speculations continue unabated. In recent years, stock speculations have increased exponentially. The activity is not confined only to large- and medium-sized cities but spreading to townships and counties as well.

Some people who engage in illegal production along with certain government officials who over-extend their authority into the financial area have become the "financial speculators"; they take advantage of the economic "hot spots" by using public funds to deal and speculate in real estate, stocks, foreign exchanges and commodity futures. Such activities can most clearly be seen in three areas:

—Disorder in fund-raising. According to investigations, bank deposits in Shandong Province this year have decreased substantially, and capital assets of the banks continued to decline. Compared to the same period of last year, bank deposits in townships and villages have declined 1.31 billion yuan. The total amount of credit and currency in circulation in China continues to expand, with some 8 billion yuan of cash available through channels outside the system. The high interest rate fund-raising in Qianxi county in Hebei Province has caused a "financial war" among banks and venture capital enterprises. The amounts on deposits in the four large specialized banks in this county declined by large margins; in March alone, the total deposits of agricultural village accounts decreased by 14.08 million yuan from the month before, while deposits of urban accounts decreased by 7.12 million yuan. Even though the State Council in April once again announced that disorderly fund-raising must be stopped, raising a warning red light on fund-raising, the measure did not cool down the fever; on the contrary, fund-raising became even more fierce. Based on statistics of eight selected provinces and cities, the total amount of funds raised exceeded 25 billion yuan in the first quarter of this year. In one southeast China province, the total amount of funds raised reached 4.6 billion yuan in the first two months of this year, and even more money was raised in March. Many localities were offering up to 20 percent interest in their fund-raising drives. Tempted by high interest rates and high returns, people would put their money not in the bank but into fund-raising channels. According to the statistics, in one quarter of this year, more than 50 billion yuan were raised in China in this way. Most of the funds raised have been invested in such illegal, high-return speculative deals as real estate, resale of imported automobiles, etc. Based on analysis of economists, the fund-raising activities of an earlier period were already out of control, and they have a great impact on the financial market not only in 1993 but for some time to come.

—Disorder in establishing economic entities. There are financial organizations which, buffeted by market forces, have turned to establishing new or different economic entities; many officials responsible for financial affairs in government have started their own businesses, while other government employees have taken on outside financial and information management functions as their second jobs, and all of them utilizing their various "contacts" and "back doors" to open the "gate" to bank loans; not only have they

diverted large loans into nonregular channels, further aggravating the disorderly fund-raising situation, they have also used public funds to speculate in stocks and real estate.

—Disorder in making capital loans. The government requires that capital loans must be handled between banks and cannot be made directly to enterprises or organizations outside the financial system. But in reality, many financial institutions disobey or disregard government regulations and willfully engage in lending to nonfinancial organizations, disguising the loans with the objective of obtaining the highest possible interest rates. The statistics of relevant departments show that in the first four months this year, of all the capital loans made, the extra-legal loans accounted for a sizable portion of the total amount.

Some enterprises as well as individuals, in order to obtain the loans, would bribe the lending financial institution and working personnel; therefore, loans made in violation of government rules and regulations occur quite often. Recently, eight staff members from six financial institutions in Beijing were found to have violated loan regulations involving some 70 million yuan. The criminal in this case, Wang Qisheng [3679 0796 0581], took charge of opening the "gate" for other members of the ring and, within less than one-half year, managed to extract successively 45 million yuan in loans, of which 26 million yuan went to the ring members and tens of thousands of yuan to his own pocket.

Before the old financial system has been completely discarded, and a new financial system fully established and functioning, it is difficult for the new system to take roots and grow out of chaos and disorder; as an old aphorism puts it, "a circle cannot be formed without rules." The Party Central Committee and State Council have, however, emphatically pointed out the need to observe strict financial rules and regulations and strengthen scientific management.

On 1 April, Jiang Zemin commenting on the current economic work said: The crux is to effectively control both money and credit, in order to maintain overall stability in the economy. The banks have an important responsibility in this regard. They must firmly manage the inter-bank lending, guard against loans which exceed the credit limits which contribute to enlarging the loopholes for fixed asset investments, and keep the entire credit system of the country under control.

On 27 April, the State Council's General Affairs Office, raising another red warning signal, issued the directive that the small number of localities and work units that disobeyed government regulations concerning disorderly fund-raising will be severely punished, and criticized the fund-raising activities of several companies; in particular, including the Xinjiang Hongyuan Trust and Investment Limited Company, the Jinan Development Properties Company, the Fujian Zhonglian Consolidated

Real Estate Investment and Development Ltd., Company, and the Hebei Properties (Group) Enterprise.

In June, the Party Central Committee, determined to thoroughly reform the financial system, put forward a series of strong measures for macroeconomic regulations.

On 5 July, at the All China Financial Work Conference, Vice Premier of the State Council and Governor of the People's Bank of China Zhu Rongji emphasized that the important policy decision of the Party Central Committee and State Council regarding the current economic work must be thoroughly implemented, that the financial system and strict financial rules and regulations must be regulated and enforced, and that financial reform will be pushed ahead and macro controls strengthened. This undoubtedly represent the highest policy makers' predisposition and decision.

What is even more encouraging is the recently concluded second session of the Eighth National People's Congress Standing Committee which called for quickening the pace of drafting economic legislation and proposed that 64 draft laws be adopted within the next two years. The members deliberated and recommended the Standing Committee adopt 12 laws such as the incorporation law and anti-unfair competition law; the members are urgently drafting 15 laws including laws on banking, stock certificates, debenture bonds, etc. The session also decided to abrogate the duties of the former president who mainly responsible for running the People's Bank of China.

The judicial and inspection departments are tightening their supervision and inspection. In early July, the media broke the story of the 1 billion yuan swindle that Shen Taifu [3088 1132 4395] perpetrated on the Great Wall Power-Generating Machinery and Technical Development Company; the Second People's Court in Beijing put on trial eight staff members from six financial institutions who accepted bribes for arranging some 70 million yuan in loans; as a consequence, discipline and inspection units were able to ferret out a group of "parasites" who have been feeding off the treasuries of financial institutions.

Directed by the State Council, inspection teams from the Treasury, the commodity prices and tax collection departments have been sent to various locations throughout the country; the financial inspection teams are probing deeply into the various organizations and enterprises. People are hopeful that these inspection teams will help implement thoroughly the government's financial policies and rectify the problems existing in the financial circles.

Economists are focusing their analyses on how to solve the problems of inflation and of financial disorder. According to one of the economists, the most difficult problem to address in the economy today is how to deal

with corrupt practices that have developed in the financial system. To deal with this type of corrupt phenomena, certain authorities will need to be taken out of the financial sector, beginning not so much with tightening the money supply but by "tightening banking operations" in order to drastically rectify the financial disorder.

There are experts who consider that finance is one of the four core areas in China's economic reform (treasury, finance, state-owned enterprises and the roles and functions of government), and that only by adhering to strict financial rules and regulations, by penalizing "corrupt" behaviors and by thoroughly reforming the financial system will this key area of finance be able to function properly; otherwise, we will be paying an increasingly larger price as the process of economic reform goes forward.

There are also experts who argue that while it would be appropriate to adopt milder and moderate measures to manage the inflation, but when it comes to dealing with corrupt practices in the financial trades, firm and decisive measures must be applied for otherwise corruption cannot be eradicated.

We have reason to believe that the negative aspects of corruption in the financial area will not linger over the longer term and that with fundamental reform of the financial system we will certainly be able to establish a new order under a market economy, because the Party Central Committee and State Council have seen through this problem, and the time has come to be thoroughly committed to solving the problem....

State Council Outlines Keys to Fiscal Reform

93CE0833A Beijing GUANGMING RIBAO in Chinese
27 Jul 93 p 3

[Article by Dou Ruguang (4535 3067 1639), Li Xiaoxi (2621 2556 6007), and Cong Ming (0654 2494): "Properly Handle Three Keys in Fiscal Reform"]

[Text] As the socialist market economy steadily develops and the national economy burgeons, the macroscopic regulatory role of state fiscal policy, especially that of the central government, has grown ever more important. Therefore, acceleration of fiscal reform has become imperative. To properly effect this reform, it is most important that we proceed from actual conditions in China, integrate the general needs of market economy with the specific ones associated with China's policy of reform and opening up and with her economic development, and practically master the following key elements.

Key One: Accelerate Tax Reform and Pave the Way for Fiscal Reform

Even though we have already created a mixed tax system rooted mainly in turnover and income taxes, with other levies playing a coordinated and supporting role, vestiges

of reliance on administrative measures to manage the economy persist, so further reform is necessary.

First, we must reform enterprise taxation, adjust and standardize the distributive relationship between state and enterprise, promote transformation of enterprise operational mechanisms, and realize fair competition. As the first step, we should standardize income taxes on domestically capitalized firms, and state firms' after-tax profits should be shared by the state, which owns their assets. However, we should take into consideration actual conditions in the latter firms, most of which may be exempted from profit remittance for years to come. As the second step, we should standardize income taxes on domestically and externally capitalized enterprises.

Second, we must reform turnover taxation; create a collection mechanism that is based on the principles of fairness, neutrality, transparency and universality and that permeates production and circulation; and promote optimization of resource allocation. We should establish a system incorporating three types of taxes—ad valorem, product, and business—and a dual level of regulation using the ad valorem levy to effect universal regulation over commodity production and circulation; the product tax to effect individualized regulation over tobacco, spirits, gasoline, automobiles, and other consumer goods; and business taxes for noncommodity transactions.

Third, we must reform income taxation on individuals, protect income earned through legal labor, adjust income disparity among members of society, and ameliorate unfairness in social distribution. We suggest drawing up an integrated law on individual income taxation, adopting the progressive rate system commonly employed internationally, set in accordance with actual conditions in China.

Finally, we should adjust tax distribution, establish a system for local taxation, strengthen the macroscopic regulatory capability of the central government, and effect division of taxation between the center and localities. To perfect local government taxation, we should, besides readjusting and bolstering local levies, designate business taxes as local imposts; expand the scope of collection of and proceeds from resource taxes, which would go to localities; and transfer land and property taxes and their proceeds to localities. Once a system of local taxation is established, the majority of local government expenditures should be financed out of the revenues localities regularly control, and the central government should provide subsidy in accordance with local needs out of the revenues that it appropriately retains, so as to strengthen its regulatory capability. Meanwhile, most authority to manage local taxation may be delegated to localities, with authority to legislate such matters devolving to provincial governments, except those that require coordinated formulation nationally.

Key Two: Accurately Handle the Distributive Relationship Between Central and Local Finances

Establishing a fiscal system for socialist market economy by no means implies weakening of fiscal functions. It is only through fiscal macroscopic regulation that the socialist market economy can achieve balance in aggregate social supply and demand, optimize economic composition, and promote rational resource allocation.

Central finance forms the bulk of state finance, whose macroscopic regulatory control over the economy is effected primarily through central fiscal policy. Over the past several years, central revenues have averaged less than 50 percent of all government revenues, and the ratio was only 45 percent last year. This makes it difficult for central fiscal policy to control the economy and to check the deleterious elements arising from economic development.

The leadership implemented by state macroscopic control must be integrated and asserted level by level. The point of departure for the center is the national economy, whereas that of localities is their own economies. On the one hand, local economic development is necessary for national economic development. On the other, only stable coordination of the national economy can ensure continued healthy development of local economies. Therefore, the whole must be considered in terms of all of its parts, coordinated leadership must be effected, the parts must support the whole, and regulatory control must be asserted level by level.

Given the current situation, appropriate increase in central share of overall state revenues constitutes an objective need for the socialist market economy. For some time, increasing this share often has been seen as an attempt to preserve or restore the traditional system. This is a misunderstanding. For in actuality, market economy requires that domestic markets be preserved; that the central government assume responsibility for national security and social stability and welfare; that coordination be effected at minimal cost so that local economies develop in balanced fashion; and that central finance support local economies and social progress. All of these desiderata dictate increase in central government revenues.

Many difficulties confront the effort to increase central revenue share. To accomplish this smoothly, we might consider the following three principles: 1) avoid reducing as much as possible the share of current and nominal local revenues; 2) refrain from reducing local contributions to intergovernmental revenue transfers; 3) by reforming the formula for revenue collection, enable central revenue growth to outstrip, either through natural trends or through deliberate stimuli, that of localities. To this end, we must take into consideration all budgetary, extrabudgetary, and unstandardized revenues and accelerate expansion of central revenue volume and share through comprehensive reform.

Creating and perfecting a formula for returning central moneys to localities is a key to strengthening central macroscopic regulatory capability. If central revenues are sufficient to cover only central expenditures, with no surplus left to return to localities, that reduces central control over localities. A variety of forms may be used to transfer revenues, such as direct return, budgetary loans, budgetary subsidies, and differentiated subsidy for the construction of national highways and interregional public facilities. What is noteworthy among these approaches is that budgetary credit funds will be coordinated with banks providing policy-mandated loans so as to guide local investment and engender efficient productive composition.

Naturally, revenue return should be properly proceduralized, systematized, and standardized. Local finances must possess certain conditions and qualifications, and there must be a definite transfer procedure before localities can obtain revenue returns.

Key Three: Accurately Handle the Distributive Relationship Between the State and Enterprises

At the current stage, the distributive relationship between the state and state-owned enterprises includes three main forms—responsibility contracting, joint stock ownership, and pilot tests separating tax and profit flows. Experience has shown that problems exist in each of these forms. Responsibility contracting has never been able to resolve the problem of "accepting profits but not losses" such that the state has had to assume the heavy burden of covering enterprise losses, and turnover tax leakage has also occurred. Joint stock ownership remains unstandardized, so individual dividends from after-tax profits are markedly higher than those received by the state, thereby reducing return on state assets. While tax-profit separation tests have achieved positive results, the program from the start has faced a situation in which a variety of distributive forms coexist, making it hard for enterprises to accept the approach. Moreover, granting firms greater preferential treatment [if they accept the approach] will distort this reform, which is designed to standardize the distributive relationship between state and enterprise.

Therefore, in accordance with the current state of the economy, the needs associated with establishment of a socialist market economy, and the conclusions obtained through careful evaluation of tax-profit separation testing, we should seize opportunities, unify conceptualization, formulate a practical and feasible master plan, implement necessary support measures, and carry out tax-profit separation across the board.

First, we must conscientiously study means by which to get enterprises to repay old loans. In consideration of the fact that most firms carry large loan balances and enjoy little leeway to service them out of their retained after-tax profits, we may adopt a variety of methods to deal with various old loans so as to enhance enterprise repayment capability.

Second, we must uphold the principle of "sharing after-tax profits." As asset owner, the state has the right to share in enterprise after-tax profits. In designing specific implementation programs, we may consider the following conceptual approaches. The first is to designate profits earned by the state as state-owned capital funds, control over which would be delegated to enterprises. This would help strengthen firms financially. The second is to adopt a flexible and varied approach to profit sharing: Enterprises that shoulder heavy loan repayments or whose products fit national developmental strategy would not be required to remit profits, while profit sharing can be used to adjust the situation pertaining to firms that enjoy high prices and profits. The third approach would be to delegate profit-sharing privileges to localities.

Third, we must properly reform the system of managing state assets. After appraising enterprise assets, we should define ownership thereof so as to transform enterprises into legal entities and market competitors that truly operate autonomously, assume responsibility for both profits and losses, develop and discipline themselves, and undertake to preserve and increase the value of state assets. We must gradually establish a system for investing, preserving, accumulating, and circulating state capital and create a new system for managing state assets. We must step up our efforts to formulate laws and regulations protecting these assets.

Article Says Tax Reform Needed To Raise Revenues

93CE0832B Beijing JINGJI RIBAO in Chinese
18 Aug 93 p 1

[Article by reporter Qian Fengyuan (6929 7685 0337): "Strengthening the Revenue-Raising and Regulatory Functions of Taxation Is a Task Brooking No Delay"]

[Text] Behind each economic lever is a heap of contradictions. This is the case of credits, public finance, price management, and especially taxation, which features the dual function of revenue-raising and financial regulation.

I

China's economy has made fairly big headway since the start of the reform and opening-up drive. During the 1980's, the country's GNP registered an approximately 300 percent growth, whereas its revenue (over 90 percent came from taxes) increased by only 200 percent. This indicates that the tax revenue grew at a much slower pace than the GNP.

According to statistics, revenue from major tax sources was equivalent to 15.13 percent of the GNP in 1988, but fell to 12 percent of the GNP in 1992. The 1992 GNP was about 2,400 billion yuan. So a drop by 1 percentage point represented a decline in tax revenue by 24 billion yuan.

Addressing a national financial and taxation conference which ended 23 July this year, Vice Premier Zhu Rongji pointed out that, during the first half year, increase in revenue was much less than the GNP growth if calculated on the basis of current prices.

In the 1980's, China began to collect product tax and value-added tax. A differential proportional rate was applied to these taxes to gear up the restructuring of industry. Later, to further strengthen industrial restructuring, another tax was levied, namely, the construction tax on investment projects, which was later renamed the regulatory tax on use of investment. Despite all these taxes, the irrational industrial structure remains unchanged. For the purpose of controlling the overgrowth of consumption funds, we have levied for years such taxes as bonus tax, individual earnings regulatory tax, and wage regulatory tax, but our consumption funds are still growing quickly. Additionally, there is a cigarette tax as high as 60 percent. The original intention was to curb cigarette production, but the result is just the opposite.

At this point, someone may ask: Is it true that China's tax system has not displayed its revenue-raising function? Is the regulatory function of our tax system weak, abnormal, and even distorted? The answers to these questions are affirmative.

Today when China's economy has embarked on the track of a socialist market economy, we feel more and more deeply that our present tax system and its operational mechanism can hardly meet the requirements of our current economic development, and there is an urgent need to strengthen the revenue-raising and regulatory functions of taxation. This is the consensus of opinion of all social sectors, including departments in charge of financial and taxation administration.

II

To strengthen the revenue-raising and regulatory functions of taxation is an urgent task of taxation reform at present. Now, more and more people have come to understand that if there are no financial, taxation, and banking reforms or if these reforms are slow, the enterprise reform, which is developing deeper and deeper, will become an isolated task without support. If so, there will be no suitable environment in which enterprises and their managerial personnel can compete on an equal footing according to the principle of survival of the superior and extinction of the inferior. Accordingly, it will be difficult to realize the goal of using the market to achieve optimum allocation of resources and improve economic efficiency.

Since the start of reform and opening-up, China has changed the single-tax system of the product-economy years into a composite tax system aiming at both financial regulation and control as well as revenue-raising. However, the current tax system is still quite transitional in nature. For example, enterprise income taxes are

divided into different categories according to the ownership of enterprises (state, collective, or private ownership) and the sources of their capital (domestic or foreign investment). The rates for these tax categories are varied. As for individual income taxes (including individual earnings regulatory tax), so far they cannot effectively regulate the earnings of individuals. Also, there is no standard for revenue distribution between the state and enterprises, and the regulatory function of taxation is far from adequate in such fields as land and financial markets. The imperfect system, plus the heavy "dependence on good administrators" to manage tax affairs, has made it virtually impossible to use taxation as a rigid restraining tool. Those who are required to pay tax at the "established rate" naturally feel that they are put at a disadvantage, and everyone is trying to get the same treatment as those who are allowed to pay less tax. In sum, our present tax system has a unique feature, that is, "high tax rates, numerous preferential treatments, low tax bases, and light tax burden."

III

Taxation reform brooks no delay. A review of the tax revenue over the past decade reveals that it is more suitable to our national conditions to use the turnover taxes (taxes on commodity circulation such as product tax, value-added tax, and business tax) and income taxes as model taxes in reforming our country's tax system. As to the direction of the reform, it is necessary to change the old idea of expanding the scope of taxation by adding more new taxes. Instead, we should aim at adjusting the distribution mechanism, intensifying the functions of the tax system, and improving the management of back-bone taxes.

Western economists said that collecting taxes is like plucking a goose's feathers. We should not only pluck more feathers, but also keep the goose from cackling or make it cackle as little as possible. This analogy is often used in dealing with tax matters. Fairness and efficiency are two major fundamental principles in the current tide of taxation reform around the world. In designing tax categories and setting tax rates, we should fully consider the taxpayers' burden. When the burden is appropriate, the economy will grow steadily, more tax sources will appear, and the nation's revenue will go up accordingly. On the other hand, a heavy tax burden will affect the taxpayers' enthusiasm about production, and as a result, it is impossible to get a good tax revenue even with a high tax rate.

It should be noted that the question of tax burden on enterprises has remained a controversial issue in recent years. Special investigations show that the present tax burden on enterprises is not heavy, but what is unbearable to them is the "three unjustifiable levies" [unjustifiable fees, fines, and apportioning of expenses], which so far are still hard to eliminate. Through the taxation reform, we should "open the main gate and close up side doors" and standardize the economic activities of all

levels of administrative organs and institutions. This is also an urgent task that we should do at present.

IV

Whether our tax system is sound and whether our work of tax collection and management is stringent has a direct bearing on the functions of taxation. It should be recognized that in many regions taxation is still a soft restraining tool at present. Recently, Vice Premier Zhu Rongji made the following remark when talking about rectifying the financial and taxation order and enforcing strict discipline in the financial and economic fields: Some comrades think that random reduction or exemption of taxes and unprincipled granting of preferential treatments to enterprises is a kind of "reform" and "ideological emancipation." Actually, this is a misunderstanding. Administrative interference, action based on the desires of higher-ups, and subjective arbitrariness are the typical practices of the planned economy. The market economy should be one based on standardization and legalization.

The process of strengthening taxation must involve legalization. Now, our country's work of legalization is still insufficient in the field of taxation. Of the 40-plus taxes presently in effect, only seven or eight were established through legislation by the National People's Congress. The vast majority of the current taxes are based on "provisional regulations" or "provisional measures," which are either administrative regulations or departmental rules. This makes it imperative to speed up tax legislation. Of course, as an ancient saying goes, "law cannot produce effects by itself." A high-quality work force to enforce the laws on tax collection and management is equally important in operating the tax system and boosting tax revenue.

Taxation: Economic Role, Administration, Problems, Plans

Taxation in Privately Owned Economy

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in Chinese 8 Jul 93 p 1

[Article: "Development of the Private Economic Sector and the Role of Individual Taxation—Record of Conversation With Ranking Person in the Collection and Administration Department, State Administration of Taxation." (Part 1)]

[Text] **Editor's Note:** With the advent of large numbers of industrial and commercial households in the wake of reform and opening to the outside world, such households have become a hot topic of discussion. Industrial and commercial households that become rich through tax cheating and tax evasion are an even more popular topic. Just what is the individual household tax collection situation? Is cheating and evasion going on? What work do tax units perform in collecting and administering individual household taxation? How great a role does taxation play in regulating unfair distribution in society? How

can a better job be done of revenue collection and administration in the private economy under a socialist market economic system? We interviewed a ranking official at the Collection Department of the State Administration of Taxation on these topics of social concern. Beginning today, this newspaper will publish the substance of these interviews in five parts. [End editor's note]

Question: China's privately owned economy has developed very rapidly during the past several years. The industrial and commercial household income problems, the status of tax collection, and the role of taxation in regulation income distribution that accompany this development have become favorite topics of conversation. Please comment on the private economy and the individual taxation situation.

Answer: First, I will talk briefly about the country's private economy. Since the Third Plenary Session of the 11th Party Central Committee, China's private economy has revived and developed rapidly. Statistics show 153.39 million registered industrial and commercial households nationwide as of the end of 1992. These industries and businesses employed 24.677 million people, had a registered capital of 60.1 billion yuan, a gross output value of 92.62 billion yuan, and a business volume of 223.9 billion yuan. Private enterprises numbered 139,000, employed 2,319,000 people, had a registered capital of 22.12 billion yuan, a gross output value of 20.51 billion yuan, and a business volume of 11.36 billion yuan. In 1992, personnel employed in the private economy accounted for 4.5 percent of the work force; their registered capital was 3.4 percent that of enterprises under ownership of the whole people and under collective ownership; their output value of 113.1 billion yuan accounted for 4.1 percent of gross industrial output value nationwide; and their business volume totaled 235.26 billion yuan. This included commodity retail sales of 195.2 billion yuan, or 18.1 percent of total commodity retail sales. Revenues paid the state totaled 20.329 billion yuan, or 7.81 percent of industrial and commercial revenues nationwide.

Development of the private economy played a positive role in advancing the development of social productivity, in expanding employment opportunities, in making the people's life easier, in promoting a readjustment of the industrial structure, and in increasing the state's fiscal revenues. The private economic sector, which operates as a market entity, is very competitive. Practice during 14 years of reform and opening to the outside world shows that the private economic sector is not only a necessary and beneficial supplement to the socialist economy, but also an important and indispensable integral part of the overall national economy. Not only does it fill in the gaps that state-owned and collective enterprises do not meet, making good omissions and deficiencies, but it also plays a major role, or even a leading role, in certain fields or industries. The strategic goals that the 14th Party Congress set for the building of a socialist market economy system, and the plans and policies for the long-term joint development of and

competition among diverse economic components will provide wider development prospects for China's private economic sector.

Of course, some noteworthy problems have also occurred in the process of developing the private economic sector. For example, a small number of industrial and commercial households and privately owned enterprises have paid scant attention to professional ethics in their operation. They have manufactured and sold fake, imitation, counterfeit and shoddy goods, engaged in smuggling and illegal trafficking, and evaded or cheated on tax payments. These illegal actions have aroused intense public dissatisfaction, and some have even become the focus of public opinion. These problems require stronger and better supervision and control.

Question: Data show that with the development of the private economic sector, revenues from the private sector have also increased, and very rapidly too. Please comment on the increase in individual taxes.

Answer: As the private economy has developed and tax collection has gradually improved, private economic sector tax revenues (notably tax revenues from industrial and commercial households and privately owned enterprises) have increased rather greatly, and they have also steadily increased as a percentage of total industrial and commercial tax revenues. Between 1986 and 1992, individual household tax revenues nationwide totaled 4.962 billion yuan, 6.446 billion yuan, 8.895 billion yuan, 13.2 billion yuan, 14.566 billion yuan, 17.419 billion yuan, and 20.329 billion yuan respectively. This represented a respective 27.45, 29.9, 37.99, 48.39, 10.34, 19.6, and 16.9 percent increase over each preceding year, and it amounted to a respective 3.88, 4.69, 5.63, 5.90, 7.41, 7.6, and 7.81 percent increase in total industrial and commercial tax revenues. During the same seven year period, the private economic sector paid the state a total of 85.8 billion yuan in taxes. This is a nearly 4 percentage point increase in total industrial and commercial tax revenues. Individual household tax revenues have become an important integral part of the state's industrial and commercial tax revenues. In the fiscal revenues of local governments at all levels, individual household taxes account for an even higher percentage of industrial and commercial tax revenues. They are an important source of fiscal revenue for local governments at all levels. Development of the private economic sector, and better leadership of individual household tax collection and administration has been put on the important daily agendas of all local party and government leaders. It has also become a way to invigorate the local economy and to improve fiscal revenues.

Question: Individual industrial and commercial household taxation has become an important integral part of state tax revenues. It is a major means whereby the state assembles fiscal revenues. What other roles does it play in social, political, and economic life?

Answer: Individual household taxation has not only accumulated a large amount of construction funds for the state but has also played an important regulatory role in the implementation of all state economic policies, in correctly guiding and advancing the development of the private economy, and in ameliorating unfairness in the distribution of income in society. Taxation makes it possible to keep close watch on production and business in the private economic sector, to improve administration and exercise needed supervision, to safeguard the normal socioeconomic order, to protect legal businesses, and to encourage people to earn income to become wealthy through honest labor and legal activities. It also permits crackdowns on illegal businesses. Reasonable and appropriate tax regulation aimed at the income of individual industrial and commercial households and privately owned enterprises, particularly to regulate their excessive earnings, can narrow the income gap among members of society, thereby easing the problem of unfairness in the distribution of income in society that stems from some people having excessively high earnings. In the process of steady intensification and development of reform and opening to the outside world, taxation serves as a principle means and the a basic form for state distribution of income in the individual and privately owned economies, and the role it plays is becoming greater with each passing day. Doing a good job of individual tax collection and administration is an important matter faced in taxation work under the new circumstances.

Improvement of Individual Tax Collection

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[Article: "Vigorous Improvement of Individual Tax Collection and Administration—Record of Conversation With Ranking Person in the Collection and Administration Department, State Administration of Taxation." (Part 2)]

[Text] **Question:** What individual taxation laws and regulations has the state drawn up to deal with the development of the private economic sector, and what is it doing to improve individual tax collection and administration?

Answer: In order to promote healthy development of the private economic sector, the state has continually drawn up a series of tax laws and regulations during the past several years. Examples include "People's Republic of China Interim Regulations on the Individual Income Adjustment Tax," which the State Council issued in 1986; "People's Republic of China Interim Regulations on the Privately Owned Enterprise Income Tax," which the State Council issued in 1988, and regulations that the State Council prepared regarding the levying of an individual income regulation tax on the income of investors in privately owned enterprises. Another example is "Decisions on Major Efforts to Improve City and Countryside Individual Industrial and Commercial

Household and Privately Owned Enterprise Tax Collection and Administration," which the State Council prepared in 1989. These taxation laws and regulations, and the issuance and implementation of decisions to improve tax collection and administration have played a major role in maintaining tax collection according to law, and in improving tax collection and administration.

In recent years, rectification of the individual taxation order, and improvement of the individual taxation administration has been one of the emphases of taxation work throughout the nation. Tax organs at all levels have resolutely implemented the spirit of instructions from the Central Committee and the State Council pertaining to the improvement of individual tax administration. They have persisted in unflinchingly regarding the improvement of individual tax collection and administration as a matter of major importance. They have also done a large amount of arduous and painstaking work, which has produced outstanding results.

Question: Can you provide specifics?

Answer: First, tax agencies have energetically improved inspections of individual tax particulars. In order to enforce tax law and discipline, and crack down on tax cheating and tax resistance in violation of the law, tax agencies twice concentrated forces nationwide within a concentrated period of time during 1989 and 1991, conducting special investigations of individual industrial and commercial household and privately owned enterprise taxation, as well as the individual income regulation tax, which produced quite good results. During the special investigation of 1991, for example, 92 percent of individual industrial and commercial households and privately owned enterprises nationwide investigated themselves, tax agencies investigating 40 percent of individual industrial and commercial households, and 60 percent of private enterprises. In addition, 65,140 households that were collectives in name but privately owned in fact, 46,037 wholesale units that deduct taxes on behalf of the state, and 7,978 units of other kinds that deduct taxes for the state were investigated. A total of 1.44 billion yuan in taxes owing were found and paid. In addition, 22,091 households that had cheated or evaded 5,000 yuan or more of taxes were found and dealt with, a total of 1,938 cases being transferred to judicial organs for disposition. As a result of these two special investigations, a number of large tax cheating and tax evasion households were found and dealt with. Some of their illegal income was recovered. This delivered a powerful blow to tax cheating and tax resistance offenses, and played a definite role in easing the unfairness of income distribution in society. All jurisdictions also improved both regular inspections and major inspections of the taxes of households specializing in trades and industries in accordance with State Administration of Taxation plans and requirements. During 1992 alone, special investigations of individual taxation were conducted in Jiangsu, Heilongjiang, Liaoning, Shanxi, Wuhan, Xiamen, and Harbin, and Guangdong Province conducted a special crackdown on tax cheating and tax resistance.

Question: During the past several years, we have frequently heard or seen publicity about taxation in publications, on the radio, on television, and even on the street. Reportedly, this is also an important part of the improvement of individual tax collection and administration.

Answer: This is what we are doing. We are conducting widespread, pervasive, and sustained publicity, dissemination, and education about the tax law in order to increase citizen awareness about paying taxes according to law. We have particularly increased education of industrial and commercial households and private enterprises in obeying the law in their businesses and to pay taxes according to law. In 1989, the State Administration of Taxation and the Communist Youth League Central Committee jointly conducted a tax law publicity and education campaign that emphasized the dissemination of tax information to industrial and commercial households throughout the country. During this period, 3.4 million copies of "Tax Information Handbook" were issued to industrial and commercial households. More than 4 million industrial and commercial households throughout the country who were organized for study, training, and conscientious testing earned "All-China Individual Industrial and Commercial Tax Law Universal Education Qualification Certificates." Between October 1990 and the end of 1991, the State Tax Administration, together with the All-China Federation of Trade Unions, the Communist Youth League Central Committee, and the All-China Women's Federation conducted a nationwide all citizens tax law publicity and education campaign that was unprecedented in size, scope, duration, and effect. In 1992, it was formally decided that April each year would be tax publicity month throughout the country. Vigorous publicity and unflagging tax law publicity and education increased the taxpaying awareness of individual industrial and commercial households, and privately owned enterprise operators. Individual and enterprises noted for operating according to law and payment of taxes according to law appeared in a steady stream. People in all walks of life and the public at large showed more concern, understanding, and support for tax work, and the amount of tax cheating and tax evasion decreased. This is the second task that we are giving attention.

Question: And what is the third task that you are working on?

The third task is to rely on Party and government leaders in all jurisdictions and to win the support of all sectors concerned for full arousal of the public to do a good job in assisting and safeguarding tax work.

Practice shows that the arousal of society as a whole is an important way to improve individual tax collection and administration, and effectively decrease and control tax cheating and tax evasion. During the past several years, tax agencies in all jurisdictions have relied closely on local party and government leaders, and have won the cooperation and support of departments concerned in

the active examination of methods and experiences for assisting and safeguarding tax work under the new circumstances. This has greatly advanced tax assistance and tax protection work. Today, all jurisdictions are setting up multi-form, multi-channel, and multi-level tax assistance and tax protection networks. In some jurisdictions in which tax assistance and tax protection work has been done better than elsewhere, a vertically and horizontally crisscrossing mass taxation monitoring network has been set up that extends from cities and towns to townships and villages, from residential areas to country fair markets, and from train and bus stations, ports, and from cargo concentration and distribution points to main transportation arteries. Many areas throughout the country have set up tri-level tax assistance and tax protection leadership organizations in counties (or cities), townships (or towns), and villages (or residents committees). Some places have published in the name of the government or the local people's congress local tax assistance and tax protection control methods, and some areas have drawn up methods tax assistance and tax protection measures as well as a series of control systems. Every jurisdiction has created and developed numerous effective tax assistance and tax protection organizational control methods. Hebei Province, for example, has linked taxation to rural construction for powerful impetus to rural taxation and administration work. Shenyang has succeeded remarkably with the establishment throughout the city of a complete and strict tax assistance and tax protection network. Wuhan has instituted joint tax department, industrial and commercial department, and public security department control of country fair markets. Market taxation procedures are in ship shape, and individual tax revenues have increased greatly. In many parts of Jiangsu Province, township and town governments have organized departments concerned in setting up "individual economic control offices" that collect scattered tax payments on behalf of tax agencies, thereby helping solve the problem of insufficient tax collectors. Some counties and cities in Guangdong Province have set up strict tax payment teams among individual industrial and commercial households, the team leader being selected from among industrial households that abide by discipline and obey the law. They are responsible for centralized payment of taxes and for publicizing the tax law. This eases tax payment problems, and it ensures prompt and full deposit of tax revenues in the treasury. Tax agencies at all levels have also set up informer telephones, informer letter boxes, and informer registers. The identity of informers is kept strictly secret, and the informer reward system and policies are constantly improved. Public interest and enthusiasm for informing on tax cheating and tax evasion is steadily rising, and the frequency of informer reports and the amount of money found through informer reporting of tax cheating and tax evasion is steadily rising. No doubt, this has played a certain role in reducing and halting tax cheating and tax evasion. Public security, public procuratorate, and legal departments at all levels devote a great deal of attention to the handling of tax crime and public order cases.

Incomplete statistics show the establishment nationwide of 441 taxation and public order agencies, and 2,624 tax procuratorial offices. Some places are also experimenting with the establishment of tax courts. The establishment and constant improvement of the tax judicial protection system has made a major contribution to the maintenance of tax compliance according to law.

Question: "It should be said that the key to better individual tax collection and administration lies in reliance on the day-to-day work of tax units. What are tax units doing about this?"

Answer: This is the fourth point that I want to talk about. Tax agencies work hard on restructuring and organizing work to improve individual tax collection and administration.

Currently a body of laws, regulations, and methods are in being for tax collection and administration in the private economic sector. Much rich experience has also been gained in practice for both the protection and promotion of the development of the private economic sector and the opening up of revenue sources, and for improvement of tax collection and administration. This will enable sustained and steady maintenance of a fairly high rate of increase in individual revenues. Tax agencies at all levels have used this as a basis for tackling restructuring and organization building as tax collection and administration reform requires. They have energetically improved every basic task in individual tax collection and administration. They have also focused on new situations and new problems in private economic sector development and transformation. They have actively explored new methods and new measures for improving tax collection and administration, and they have steadily moved ahead with individual tax collection and administration work. In response to the need to improve individual tax collection and administration work, the government or People's Congress in some areas have promulgated local individual industrial and commercial household tax collection and administration methods. Some areas have set up special individual tax administration agencies for the specific purpose of controlling individual taxes. Some areas are trying out the use of numbered invoices and the issuance of prizes to the holders of invoices bearing the invoice numbers drawn in lotteries. This encourages customers of individual industrial and commercial households to ask for invoices, which improves the control and monitoring of transactions by such households. Some areas work together with banks to solve individual industrial and commercial households problems in paying taxes through banks. By way of ensuring implementation of individual revenue plans, a system has also been set up and perfected for the independent assignment and independent appraisal of individual taxes to improve macroeconomic control and management by objective. How well each jurisdiction fulfills its individual tax revenue plan will serve as an important indicator for appraising tax work achievements, and it will be an important requirement for assessment and commendation as well. It is intended to arouse to the full

the enthusiasm of the broad masses of tax cadres to do a good job of tax collection and administration. In September 1992, the twenty-seventh meeting of the Seventh NPC Standing Committee passed "People's Republic of China Tax Revenue Collection and Administration Law." This was China's first unified tax revenue administration law. Its promulgation and implementation marks the further legalization and standardization of China's tax collection and administration. This will be bound to have a far-reaching effect on improvement of individual tax collection and administration and the building of a fine individual tax order.

Thanks to several years of daunting efforts, great advances and improvements have been made in individual tax collection and administration. However, one must also realize that some weak links and inadequacies remain. Tax cheating and evasion have decreased overall, but it is still fairly common in some places. The individual tax environment and order need further improvement.

Tax Cheating, Role of Taxation in Income Distribution

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[Article: Tax Cheating and Evasion in the Private Economic Sector and the Role of Taxation in Regulating Income Distribution—Record of Conversation With Ranking Person in the Collection and Administration Department, State Administration of Taxation. (Part 3)]

[Text] **Question:** Many people say that all industrial and commercial households cheat on or evade taxation, and that this is very serious in some places. How should this matter be viewed?

Answer: Tax cheating and tax evasion is a persistent ailment in economic life that is difficult to cure, and it is also a problem that exists in every country of the world. It is just that the seriousness of tax cheating and tax evasion and the ways in which it is expressed differ from country to country as social systems differ, as the degree of their economic development differs, and as the character of their taxation differs. Pertinent data show that tax cheating and tax evasion in developed countries runs around 10 percent. In developing countries, it is approximately 20 percent. Moreover, tax cheating and tax evasion by individuals or individual operators (in foreign countries, such owners are termed sole proprietorships or one-man operators) is fairly universal in every country of the world and has become a thorny problem. For example, a 1973 survey of small sole proprietorships in the United States showed a tax payment rate of only 57 percent. A 1988 survey of 160,000 one-man operators in Japan found that 95.8 percent of them cheated on or evaded taxation. China's individual taxation control is fairly strict by comparison. Control methods are effective. This point has been acknowledged and praised by tax officials abroad. Nevertheless, strict control and

effective methods do not mean that no loopholes exist. In China, a certain amount of tax cheating and tax evasion still exists in the private economic sector. This situation in economic life cannot, for the moment, be eliminated.

Question: What are the reasons for tax cheating and tax evasion by individual industrial and commercial households?

Answer: Tax cheating and tax evasion have deep historical roots and social causes. In the class society that has existed in China during the past several thousand years, taxation always expressed the correlation between severe class oppression and class exploitation. This built up a powerful and firm inclination in people's minds and various fixed ideas about taxation. Under socialism, the character of taxation in China has changed fundamentally, but the effects of the old, traditional ideas cannot be completely eliminated. Some people fail to understand the truth that socialist taxation in which money is taken from the people to be used for the people, and taxation according to law is a duty that citizens should perform. Consequently, they wilfully cheat on taxes without regard for the welfare of the country and society. Specifically, taxpayers' poor understanding of the legal system and lack of awareness of the need to pay taxes are the main reasons for the existence of tax cheating and tax evasion.

Question: You have given the historical roots and the ideological reasons, but are there other reasons?

Answer: There are both innate and external reasons for the pervasiveness of tax cheating and tax evasion in the private economic sector. These are manifested in the following several ways:

One is that industrial and commercial households and private enterprise entrepreneurs come from all strata of society. Quite a large number of them do not have much education. Their understanding of the legal system is poor. Some even lack the slightest knowledge of the law and have no taxation awareness. Most of these entrepreneurs are good people. They are honest and hardworking, abide by the law in doing business, and pay their taxes according to law. They have both developed the social economy while increasing their own wealth at the same time. Some have been termed model taxpayers and have been issued awards. However, a small number of these people stubbornly pursue their own selfish interests. Their desire to cheat on their taxes is strong, and they will do whatever they must do to attain their tax cheating goal. Although small in number, the influence of these people is extremely bad.

Second, the ways in which individual industrial and commercial households do business is complex. They may do a large volume of business from many different sites over a wide area; the channels through which they obtain and sell goods are concealed from view and scattered; and their business methods are flexible and varied. Mostly they deal in cash, and they do not keep

complete accounts. Consequently, timely, effective, and accurate understanding of the real basis on which they figure their taxes is difficult. Stanching the loss of tax revenues at the source is also difficult as a result.

Third, the volume of individual tax collection and administration work has increased several fold during the past several years, and the difficulty of tax collection and administration has steadily increased. The forces available to tax agencies for collection and administration, the caliber of personnel, and tax collection and administration techniques scarcely meet needs. For example, a single tax agent is responsible for more than 200 industrial and commercial households. In some cases, he may handle between 300 and 400. This means that complete and effective control and careful and thorough checking is difficult. Of course, a small number of tax cadres are not highly qualified; they may not have a very strong sense of responsibility; and "favoritism" problems may also exist. Some may even bend the law for the benefit of relatives or friends, thereby presenting them with an opportunity for tax cheating.

Fourth, the tax code is not complete, and tax collection and administration is not sufficiently strict. Considering the relative haste with which some laws, regulations, and methods were inaugurated, it is no wonder that they are not complete. Furthermore, with the advent of new situations and new problems, insufficient revisions and adjustments, and insufficiently clear policies make for much arbitrary enforcement.

Fifth is insufficient coordination among agencies. The social climate for taxation is hardly ideal. To a certain extent, laws are not applied, enforcement is not strict, and difficulties in correcting violations exist. For example, some industrial and commercial households and private enterprises operate as state-owned or collective enterprises, thereby fraudulently obtaining state tax concessions. Some use state-owned or collective enterprise licenses, ledgers, and vouchers to do business in violation of the law, evading and cheating on their taxes. In order to obtain administration fees or benefit otherwise, some street or enterprise units or departments permit such practices to continue or even secretly protect them, thereby opening wide the door to illegal dealings and tax cheating. Thus, the number of such cases is steadily increasing. Furthermore, penalties for tax cheating and tax resistance in China have been rather light for a long time. They are not severe enough to deter determined tax cheaters and resisters. The substitution of fines for incarceration and the failure to punish vigorously also abet the evils of tax cheating and evasion.

In addition, the arbitrary fees, arbitrary fines, and arbitrary assessments levied on industrial and commercial households and private enterprises are becoming more and more numerous. Such fees already exceed the amount of taxes. Because of this excessive burden, some people do everything possible to cut their taxes, paying less taxes in order to make up for the greater payment of

fees. In a certain sense, arbitrary fees, fines, and assessments take away tax revenues, and cause very great difficulties for tax collection and administration. This problem should receive the serious attention of government at all levels.

Question: Much discussion has occurred in recent years about tax cheating and tax evasion in the private economic sector. The call for better individual tax collection is very loud. Can you comment on the breadth, scale, and degree of tax cheating and evasion by industrial and commercial households?

Answer: There is no general consensus about how to analyze objectively the degree of tax cheating and tax evasion by industrial and commercial households and the privately owned enterprises. The State Administration of Taxation has intensified investigation and study of this matter, and it has come up with some pertinent preliminary materials and data. Take, for example, the data that the 1991 special investigation of individual taxation provided. A major nationwide investigation of more than 2.96 million industrial and commercial households found tax cheating or tax evasion in varying degrees by more than 1.63 million of them. The extent of tax cheating and tax evasion (i.e., the taxpayers who cheated on or evaded taxation as a percentage of all taxpayers) was about 55 percent, and the amount by which they cheated on or evaded taxation was about 30 percent (i.e., the amount of taxes they evaded or cheated on as a percentage of the amount of taxes due for the same period). These data reflect, to a certain extent, the degree of tax cheating and tax evasion by industrial and commercial households. Probably some of this tax cheating and tax evasion stems from taxpayer unfamiliarity with the tax code, but some of it is intentional cheating. It should be pointed out that the most of the households that the tax authorities investigated were large industrial and commercial households; thus, the percentage of cheaters and evaders, and the amounts are relatively high.

Because of various factors, unevenness exists today in the intensity, depth, and quality of individual tax collection and administration. Overall, the level of collection and administration has generally increased, and tax cheating and tax evasion have declined. This is particularly the case in places where individual tax collections were enforced early and well, individual taxes being controlled fairly strictly and according to standard. However, by comparison, tax cheating and tax evasion is somewhat greater or worse than formerly in some places. As society has progressed, people's thinking and ideas have also changed. As a result of two investigations and rectifications, and the launching of widespread and pervasive publicity and education about the tax code, the taxation awareness of the broad masses of industrial and commercial households and operators of privately owned enterprises has risen. The number of people who pay taxes according to law has increased for a corresponding decrease in tax cheating and tax evasion.

Furthermore, with the steady intensification of individual tax collection and administration work, it continues to decline. This is our basic assessment of tax cheating and tax evasion in the private economic sector at the present time. What we have done, what we are doing, and what we will do centers around this central issue of improving tax collection and administration to reduce to the minimum the state's tax losses. This is our unshirkable responsibility.

Question: In talking about the unfairness in income distribution, people frequently bring up the overly high income of industrial and commercial households and of the operators of private enterprises. They also link tax cheating and tax evasion by individual households to the unfairness in income distribution. They believe that tax cheating and tax evasion is one of the reasons that industrial and commercial households and operators of private enterprises get rich, and that income distribution is unfair. How do you feel about this issue?

Question: This issue must also be analyzed objectively. Certainly some industrial and commercial households and operators of private enterprises have relatively high incomes. These people get their incomes from three main sources: One is through honest labor and legal operation. A second is from other than work, meaning mostly returns on investments, differential income, risk income, and income from the surplus labor of employees. To a certain extent, this income is related to prices, the income formation mechanism, and the income distribution pattern, which are legal but not necessarily sensible. A third source is illegal business, which must be resolutely stamped out and strictly punished.

The relatively high income of industrial and commercial households and operators of private enterprises may be understood in the following ways:

First, there are good reasons for the income. Unlike the staff members and workers in state-owned and collective enterprises and institutions, industrial and commercial households, and the operators of private enterprises do not enjoy state care in the form of housing, medical treatment, and retirement pensions at public expense. Moreover, their income is also both compensation for long work hours and greater labor intensity, and makes up for risk taking in business. It has been estimated that the earnings and various welfare benefits of staff members and workers in state-owned and collective enterprises and institutions together are about equal to the average earnings of industrial and commercial households.

Second is historical and objective reasons for the income. In Western countries, because the market economy is developed and competition is intense, the market share and business returns of small businesses are poor. Without a smart business strategy, strict business accounting, and business opportunities, making a decent income is rather difficult. This is not the case in China.

In the process of changing from a planned to a market economy, none of the mechanisms are fully developed. For historical and practical reasons, state-owned and collective enterprises have yet to transform their operating mechanisms completely to compete to the full. This is particularly so in the commodity circulation and service trades realms, which are in a markedly inferior position. The private economy operates within the market economy. It fills in certain blank spots, and the relative high incomes are within bounds. As the market economy develops and the market mechanism steadily improves, this situation will change, but a process will be required.

Question: Taxation is a lever for the regulation of distribution. How should tax regulation be applied to industrial and commercial households that have overly high incomes?

Answer: Taxation has already played a certain role in regulating the incomes of individual households, but tax regulation has its limits too. Taxes are collected according to the nationally prescribed tax code and regulations. The tax code is an integral part of national laws. Therefore, income to be taxed must be legal income. It is mostly this legal income that can be regulated by taxation. Administrative and legal methods must be used for income obtained illegally. Fines must be levied and illegal practices must be stamped out and severely punished. Tax regulation is limited by the provisions of the law. Only what the tax laws and regulations prescribe may be collected. Tax regulation applies to a definite scale and limit. When this scale and limit are exceeded, tax laws and regulations are powerless. This means that taxation as a means of regulating income is not a panacea; one cannot suppose that the tax code should be used to solve all income distribution problems or that taxation can solve them. This is also the case in regulating the income of industrial and commercial households and of the operators of private enterprises. For various reasons, transparency of the income of industrial and commercial household and operators of private enterprises is fairly low. This causes a certain amount of difficulty in verifying the amount of taxable income. In addition, it is also difficult to determine clearly which parts of the verifiable income is legal and illegal, and which income is from labor and from other than labor. Sources of income are fuzzy and the total amount is distorted. Consequently, it is hard to know how to apply tax policies and regulation. Too heavy a tax burden hurts the economic development of the private economic sector. When social obstacles are fairly great, results decline. If the tax burden is light, the purpose of taxation cannot be attained. Individual tax policies and regulations are thus between a rock and a hard place.

In the process of reform and opening to the outside world, since reforms are underway in the production and commodity circulation realms, but distribution policies, distribution patterns, and distribution mechanisms have yet to be straightened out fully, the appearance of some unfairness in income distribution is unavoidable. Tax

regulation can play a role in easing these problems, but it cannot completely solve them. Unfairness in income distribution stems from extremely complex reasons that include incomplete and unimplemented macroeconomic reforms, and an incomplete legal system. It also stems from the lack of strict microeconomic control, and slackness in the enforcement of the law and discipline. We must get to the root of the problem to tackle problems in a comprehensive way. We believe that as the socialist market economy develops and a mechanism steadily improves in which distribution is primarily according to labor and diverse forms of distribution co-exist, income distribution among the members of society will become increasingly fair and reasonable, and the problem of the overly high incomes of industrial and commercial households will ease.

New Circumstances, New Problems

93CE0799A Beijing ZHONGGUO SHUIWU BAO
in Chinese 19 Jul 93 p 1, 2

[Article: "Individual Tax Collection and Administration Faces New Circumstances and New Problems—Record of Conversation With Ranking Person in the Collection and Administration Department, State Administration of Taxation." (Part 4)]

[Text] **Question:** Following Comrade Xi Jinping's travels in south China and the 14th Party Congress' establishment of the socialist market economy system, the development of China's private economy entered an important period of high-speed growth and an unprecedentedly fine situation. Please comment on the new situation in economic development since the beginning of 1992.

Answer: Since the beginning of 1992, the individual economy has truly exhibited a high-speed growth trend. This is mainly because, guided by the remarks of Comrade Xiaoping during his travels in south China and the spirit of the 14th Party Congress, party and government leaders at every level have placed more emphasis than at any time in the past on the important role of the private economy in developing the local economy. They have strengthened the leadership and coordination of individual and private economy development and management work. All government departments are also studying and drawing up policies and measures for promoting the development of the private economy, and they are abolishing limitations that do not favor development of the private economy. The private economy has entered a new stage of development. The new situation in the private economy is manifested largely in the following regards:

First is the dramatic increase in industrial and commercial households and private enterprises, and the development of their scale of operations. In 1992, the number of industrial and commercial households nationwide, the number of persons working in them, and the amount of their registered capital increased 8.3, 9.3, and 23.1 percent respectively over the previous year. The number

of private enterprises, the number of people working in them, and the amount of their registered capital increased 28.8, 26.0, and 79.8 percent respectively over the previous year. Newly opened industrial and commercial households numbered 3.162 million, or 20.6 percent of the total number. Newly opened private enterprises numbered 43,400, or 31.1 percent of the total number. The average amount of funds at the disposal of industrial and commercial households increased 13.7 percent over the previous year, and the average amount of registered capital of private enterprises was 38.7 percent greater than during the previous year. In addition, scientific and technical, externally oriented enterprises increased rapidly. In 1992, private scientific and technical consulting business numbered 2,348, and private enterprises that produced foreign exchange from exports numbered 2,230. Their foreign exchange earnings from exports for the year converted to renminbi terms totaled 957 million yuan.

Second is the steady rise in the number of personnel working in the private economy. During the process of state-owned enterprises transforming their operating mechanisms, and party and government organs, enterprises, and institutions changing their functions, some personnel who were separated made application for employment in the private economy. This included plant directors, manager, experts, and scholars as well as well-known personalities. These people infused new vigor into the development of the private economy with the result that the productivity and the enterprise of the private economy rose, and the caliber of personnel also rose.

Third is the emergence of large numbers of specialized markets, wholesale markets, and diversified markets. Farm trade markets also further prospered and expanded. Everywhere, large number of markets of all kinds have been newly built. In addition, quite a few night markets, early morning markets, Sunday markets, "single street" markets, and some spontaneous ad hoc markets have appeared. Seventy percent of the operating entities entering the country's nearly 80,000 farm trade markets are industrial and commercial households, and they account for about 85 percent of business volume.

Fourth is enterprises transformation of their operating mechanisms, decontrol in the commodity circulation realm, and a meteoric increase in the number of state-owned civilian-operated businesses, and in the various kinds of individual household and individual leasing, and contracting operators, guakao [2171 7237] operators, and operators whose remuneration is linked to sales. A number of small scale state-owned and collective enterprises have changed to staff member and worker individual contracting and leasing operation. They have instituted compensation for the use of money awards, payment to the state of set sums, and the division (or reversion to oneself) of excess earnings. Numerous state-owned and collective markets have brought in individual groups and individuals, and they have resorted to the leasing of stalls, the linking of remuneration to sales, and

commission sales as ways of doing business. They practice personal disposal of money awards, personal purchase of goods brought in for sale, responsibility for one's own profits and losses, and payment of fixed amounts to the state [remaining profits belonging to oneself]. Large numbers of industrial and commercial households and private enterprises have become state-owned or collective enterprises. They have moved to development zones and places where taxes are relatively low, or they have developed joint ventures or enterprises owning shares in one another that cut across regional, industrial, and ownership system lines. Consequently, the economic character of enterprises is hard to determine, thereby increasing tax collection and administration difficulties.

Fifth is the greater prevalence of floating operations, ad hoc operations, and unlicensed operations. With the liberalization of policies and the rise of second jobs, large number of temporary and scattered stalls have appeared in streets, lanes, and alleys, and the number of floating businesses have steadily increased. The uncertain times of business, special methods, and difficulty controlling these taxpayers not only cause a loss of tax revenues, but also have an impact on permanent business operating according to law and paying taxes according to law. The number of licensed industrial and commercial households that have become unlicensed operators is rather serious.

Question: Hearing you talk about the new trends and events in the development of the private economies, I feel that taxation policy and tax collection and administration in the private economic sector have encountered quite a few new problems.

Answer: Yes. The new situation in the individual economy actually demonstrates the new opportunities and new challenges being faced in individual tax collection. On the one hand, the increase in tax sources creates extremely favorable conditions for greater individual tax collection; at the same time, the expansion of the area of control and the increase in difficulties make tax collection and administration harder. The cries from the public today to collect more taxes from the individual economy is strong, but the demand to advance the economic development of the industrial and commercial households and private enterprises, and to liberalize tax policies for the individual economy is also very loud. How to handle correctly the correlation between control and service under the new circumstances, both fostering development of the private sector and the private economies, and also maintaining taxation according to law, the better to employ the regulatory role of taxation is a major problem faced in tax collection and administration. However, in many ways, current taxation policies and collection and administration methods do not meet the needs of the developing situation. Some problems exist that require urgent solution.

Question: Can you explain to me in detail the new problems faced in private economic sector tax collection.

Answer: First is the tax policy readjustment issue. The existing tax policy was drawn up largely on the basis of a different economic set-up. Some provisions no longer apply to development of the private economy. This causes uneven tax burdens, and gives rise to numerous contradictions. Industrial and commercial households and private enterprises do not enjoy the preferential policies accorded state-owned and collective enterprises. The industrial and commercial household income tax rate is nominally high, but actual tax collection is less. From both a theoretical and practical standpoint, this is detrimental to tax collection and administration.

In addition, tax policies and tax collection and administration are not sufficiently meshed. Some tax policies, such as provisions regarding the persons who pay the agricultural, forestry, animal husbandry, and aquatic products tax, and the point in the circulation chain where the tax is paid, the sites at which the income tax is paid, distinctions about the economic character of enterprises, and determination who is the nominal and who is the actual taxpayer must be correspondingly adjusted as individual tax collection and administration require.

Second is the lack of complete, scientifically strict individual tax collection and administration methods and measures. No nationwide uniform individual tax collection and administration methods exist today. Every jurisdiction draws up its own individual tax collection and administration methods on the basis of State Administration of Taxation principles as they relate to the local situation. The breadth and depth of tax collection and administration differs from place to place; thus, tax work is done differently from place to place, and tax burdens also differ greatly. For example, some places make use of the advantages they possess in the form of their economy, transportation, and facilities to provide low tax policies and concessions that successfully foster the rise of a considerable number of large influential markets that attract large numbers of entrepreneurs from elsewhere. In some other places that are limited by the economic and fiscal situation, tax burdens are relatively heavy, control is fairly strict, and fees are both numerous and steep. This makes development of markets difficult. The arbitrary character of these tax policies and collection and administration methods results in unequal competition between one place and another. Operators move to low tax areas, and taxes also take a downturn and flow away. After some tax policies were amended and readjusted, collection and administration was still not right. For example, after halting wholesaling tax deductions and changing around inspection stations, new measures for controlling individual sources of taxation should be urgently studied.

Third, collection and administration personnel are lacking, and collection and administration methods are antiquated. Today, more than one-third of the nation's more than 500,000 tax cadres are concerned with private sector tax collection and administration, yet their revenues amount to only about 8 percent of total industrial and commercial tax revenues. Clearly tax costs are very

high. Even so, there is a severe shortage of tax collection and administration personnel. This makes thorough and detailed work difficult. Specifically, the economic activities that taxpayers perform on holidays, early in the morning, late in the evening, and during the night have not been brought under regular control. Scattered tax revenues that should be collected from streets, lanes and alleys, and rural villages are not collected. Many grassroots level tax offices have not found office space, and their communications and transportation equipment is even more antiquated. This impairs the effectiveness of their tax collection, administration, and checking for evasion. The hardships, tiring nature, difficulty, and risks of individual tax collection and administration work, and the overly low benefits are problems requiring solution.

Fourth is the comprehensive control problem. Nowadays, all one has to do is mention the unfairness of income distribution and people very naturally think about the private sector tax collection and administration issue. However, sole reliance cannot be placed on the tax sector and taxation methods to solve thoroughly problems such as regulating high incomes stemming from other than labor and illegally obtained earnings, and fostering citizen awareness of taxation, or controlling cash transactions, and keeping abreast of the income that individual households, private enterprises, and individuals make. A coordination system must be set up under leadership of local governments at all levels to strengthen the overall tax control network for steady improvement of the private sector tax order and environment.

Correct understanding of the current private sector tax situation, seizing the opportunities that great development of the market economy presents, and conscientiously studying and solving various problems that come up in the process of moving ahead are urgent issues that tax collection and administration work faces. Good solution of these problems is extremely important for individual tax collection and administration.

New Tax Mechanism Needed

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in Chinese 22 Jul 93 p 1

[Article: "Individual Tax Collection and Administration Faces New Circumstances and New Problems—Record of Conversation With Ranking Person in the Collection and Administration Department, State Administration of Taxation." (Part 5)]

[Text] **Question:** Following establishment of the new socialist market economy mechanism, individual taxation policies and regulations, the taxation organizational structure, tax collection and administration forms, methods, and techniques, and the tax collection and administration monitoring system all had to be improved and strengthened to meet the needs of the

socialist market economy operating system. Please tell me what plans does the State Administration of Taxation have?

Answer: Establishment of a new mechanism for individual tax collection and administration requires an emancipation of thinking and a change in ideas first of all. Understanding of the position and role of the development of the private and private economy and individual taxation must be steadily deepened. Policies must be adjusted to create an environment for equal competition that ensures vigorous development of the private economy. At the same time, better control of the private economy is needed to enable development of the private economy, and the winning of new advances and breakthroughs in individual household tax collection and administration. In short, the establishment of a new individual household tax collection and administration mechanism that corresponds to the socialist market economy is imperative.

Question: What plans does the State Administration of Taxation have for adjusting individual taxation policy and improving laws and regulations in the near future?

Answer: In the readjustment of policies, in addition to merging the income tax of Chinese capitalist enterprises and speeding up the formulation of a uniform individual income tax code as provided in the overall tax reform plan, a one-time checking of individual and private economy taxation policies and laws is to be done, those that should be discarded discarded, those that should be revised revised, and those that should be redrawn redrawn in the spirit of the 4th Party Congress, these actions used as the basis for studying various policy provisions to promote development of the private and the private economies. The principle is to be a fair tax burden and equal competition for all parts of the economy, the formulation and readjustment of tax policies to be based on state industrial policy. Economic character is not to be the basis, tax concessions granted without discrimination to all without regard for their form of economic ownership. In the perfection of laws and regulations, more must be done to build a tax collection and administration legal system. The "Tax Collection and Administration Code" and its detailed regulations for implementation are to be the criteria for regularizing individual tax collection and administration work procedures, and for spelling out the separate actions and responsibilities of both taxpayers and the tax authorities. "National Tax Coordination and Tax Protection Control Methods," "National Industrial and Commercial Household Regular Quota Tax Collection Methods," and "National Country Fair Market Tax Administration Methods" must be drawn up. In addition, the summarization of experiences of all jurisdictions should form the basis for drawing up uniform tax collection and administration methods for tax collection and administration problems with regard to contracting and leasing, leasing of counters and linking of compensation to sales, and doing business in different locations.

Question: Improving tax collection and administration simultaneous with the perfection of policies, and laws is still the key. May I ask what measures are to be taken for further improvement of tax collection and administration?

Answer: First is to improve methods. In addition to continuing to maintain a series of collection and administration systems, methods, and measures that past practice has shown to be effective in private economic sector tax collection and administration, the focus is to be on new circumstances and new problems today. Different emphases in management are to be spelled out to improve and strengthen administration. Category-by-category, and level-by-level control is to be exercised for industrial and commercial households. Category-by-category means dividing up industrial and commercial households on the basis of scale of operations or the amount of taxes paid into three types, namely, large, medium, and small. The emphasis for individual large households is to be on good administration, accounts set up and systems promoted for constant improvement of the level of bookkeeping. Where conditions permit, the setting up of account books and systems is to be promoted for medium-sized individual households as well, most households assessed a certain amount of tax, both the norm and the time period changing as business changes. A relatively rudimentary tax collection method is to be adopted for small households, a certain basis used for checking and approving the amount of taxes. The checking and approval period should also be lengthened, and more manpower should be devoted to the handling of large- and medium-sized business households. Centralized control may be exercised over private enterprises as conditions permit. Different kinds of enterprises should be handled differently, i.e., different tax collection and administration methods should apply to industries of different kinds. Greater control should be exercised over key industries to solve the problem of unequal tax burdens within the same industry. Different levels should be handled differently, i.e., supervision by the authorities and by the masses should be organically combined. In addition to direct collection and administration by the tax authorities, departments concerned or basic level authorities in cities and the countryside should be commissioned to collect taxes in scattered places that the tax authorities cannot readily handle. This will help solve the dual problems of insufficient numbers of tax collection and administration personnel and bringing sources of taxation under control. In addition to drawing up with all possible speed rules and regulations to normalize procedures for controlling the collection of specific sums at specific times, macrocontrol and plan management of the specific sums must be improved in order to solve gradually the problems of setting the amount of taxes too low and unequal tax burdens in different industries and different areas. A starting point fixed sum should be promoted throughout the country, investigation and calculations used to draw up uniform graduated quota standards area by area, and industry by industry to improve the transparency of

quotas, thereby regularizing and standardizing quota readjustments. Individual tax collection and administration methods must be steadily perfected, and methods and measures for further perfecting tax collection and administration methods and measures should be studied and explored as the character of individual tax collection and administration work requires. More regular tax inspections should be conducted, particularly inspections of key industries and key business households for timely discovery of problems in tax collection and administration. Basic control of private economic sector taxation must be improved. This includes control of sources of taxation, files control, and voucher control. The pilot projects in awarding prizes for voucher number drawings should be continued, and the problems of paying pilot project expenses and finding sources of prize money solved.

Second is increasing the number of tax personnel. Vigorous actions must be taken for the planned, step-by-step selection of a number of permanent professional cadres who understand the tax profession, who know how to examine accounts, and who are well versed in individual tax collection and administration work for dispatch to the front line of tax collection and administration. Studies should be conducted and adjustments made in the numbers of work hours of tax collection and administration personnel as local circumstances requires to improve collection and monitoring work during holidays, in the early morning hours, during the evening, and at night, in order to plug loopholes in these regards. Various kinds of personnel evaluation and assessment systems should be set up and perfected that take account of the scope of individual tax household tax collection and administration, the difficult working conditions, tax collection and administration difficulties, and the swift pace of cases in order to arouse to the full the zeal of tax collection and administration personnel. More must also be done to improve ideological and political training, and more professional training must be given to improve the caliber of personnel concerned with individual tax collection and administration, to perfect the restriction mechanism, and to keep a tight rein on the cadre corps. Grassroots tax collection units office space, transportation, and communications gear problems must be given close attention and solved little-by-little over a period of time to meet the special needs of individual tax collection and administration work.

Question: Individual tax administration must also take account of the setting in which it is performed. It requires coordination and support from other government agencies. This has been demonstrated by past experience. Will the tax authorities do more work in this regard in the future?

Answer: Yes. We intend to move ahead comprehensively with individual tax collections, relying strongly on party and government leaders at all levels, and improving cooperation and coordination among all departments concerned. For example, we intend to work with government industrial and commercial departments and the

banks in studying the joint promotion of a uniform taxpayer identification number to increase control over households that produce tax revenues. We are studying joint action between the tax authorities and banks to reduce cash transaction, and to control multiple bank accounts, and we are drawing up measures for effectively controlling taxpayers' business income. We are studying the establishment of a system that ties together industrial, commercial, and tax registration to rein in unlicensed business dealings. We are moving ahead actively with the establishment of a judicial protection system for taxation, straightening out jurisdictional problems in tax cases, and cracking down hard on tax cheating and tax resistance in violation of the law. We are urging the systematization and socialization of joint taxation [xie-shui] and protective taxation [hushui], setting up an effective social monitoring mechanism for individual tax collections throughout society. Certainly, we will also seek cooperation with news and propaganda departments. We will continue to use various means to publicize and educate people in the tax law to increase the citizenry's awareness of the need to abide by the law in doing business and to pay taxes according to law.

In China, individual taxation administration might be said to be a new and complex regimen in management. We got off to a late start in studying this system, particularly individual tax administration under socialist market economy conditions. We are still in the exploratory stage; numerous problems have yet to be examined. Individual tax collection and administration is a complex and daunting task that has to both channel and advances development of the individual and private economies, and plug loopholes to increase revenues, thereby reducing state tax losses to the minimum. At the same time, it has to give expression to tax organs' role in providing good service to and effective supervision of taxpayers, and in reducing unfair income distribution. This work needs the understanding of people in all walks of life and the public at large, and it even more requires the serious attention, support, and cooperation of all society.

AGRICULTURE

Symposium on Guiding Peasants to Market Economy

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[Article by Wu Shangmin (0702 1424 3046) and Yuan Yongkang (5913 3057 1660), both of the Office of the Chinese Academy of Social Sciences; edited by Yi Nong (4135 6593). Participants who spoke at the meeting include Qin Qiming (4440 0366 2494), Lu Xueyi (7120 1331 5669), Liu Wenpu (0491 2429 3877), Ai Yunhang (5337 0061 5300), Yu Guoyao (7411 0948 5069), Zhang Luhsung (1728 6424 7160), Du Ying (2629 7751), Liu Fuyuan (0491 4395 0997), Zhou Mingjun (0719 2494

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[Text] On 9 March, the editorial section of "Abstracts from the Chinese Academy of Social Sciences," and both the Institute of Sociology and the Institute of Rural Development of the Chinese Academy of Social Sciences jointly sponsored a symposium on "How To Lead the Peasantry Toward a Market Economy." Important views presented by specialists on the subject are summarized and presented here.

I. Overall Evaluation of Agriculture and the Rural Environment at Present There are two important viewpoints here. One view thinks the present rural situation is very depressing. Some specialists indicate that average peasant income from 1989 to 1991 only grew 0.72 percent per capita, though peasant income last year showed a growth of 5.9 percent over the year before, a kind of restorative growth. Last year, the per capita income for living expenses in urban areas was 8.8 percent (with the commodity price factor deducted), an increase of 2.9 percentage points over peasant income.

Some specialists feel that the volume of food staples for 1985 was cut more than 50 billion jin over that for 1984. The present agricultural situation is very much like that in 1984-85. Reduced agricultural output is now a given, and it may affect the overall national economy unfavorably, and create conflicts.

The second viewpoint recognizes the fact that even with the possibility of an immediate reduction in food staple production, China's food supply in the near future (within two years or so) is not a big problem. Some scholars cite the following reasons:

1) Following development in recent years, China's combined food production capacity has reached a new phase, stabilizing generally, around 425 billion kgm. Basically, this is adequate to meet the society's present consumption needs.

2) The state's food grain stores and that held by the peasantry are relatively adequate. That held by the state is based on an allowance of 205 jin per person, enough to sustain society's consumption needs for six months, well above the internationally recognized safe subsistence level.

3) Over the last two years, the market for agricultural products has become soft, and the problem of overstock and slow sales becomes obvious, particularly when sale, storage, and shifting of food stores are difficult, and the makeup of agricultural products in variety and quality becomes irrational. The problem of quality is obvious, leading directly to increased agricultural output without increased yields, or even with reduced yields. For the peasants and local governments to adapt to market needs against this background, a rather large adjustment is made structurally within agriculture. Such adjustment is

beneficial toward bringing into play the advantages of local resources to improve the economy. As long as the food stocks in storage are not greatly affected, such fluctuations should be considered normal, and there is no need for concern.

At present, rural economic development faces the following problems:

1. A drop in the active willingness of peasants to plant food. That is seen in the abandonment of plantable acreage, reduced participation, and burdensome responsibility. According to statistics, the planted acreage for staples is reduced 20 million mu over the previous year, and that for cotton, down 75 million mu; for rapeseed, down 10 million mu. Peasant participation in 1989 dropped 15.2 percent over that in 1988, and that in 1990 dropped 35.4 percent, and that in 1991, 18.1 percent. Taxes paid by peasants in 1991 were 19.4 yuan per capita, an increase of 1.08-fold over that for 1986, comprising 8.8 percent of the net income per capita. When various overall plans and retentions are added, the 44.5 yuan per capita comprises 9.9 percent of the net income. These two items combined can be as high as 15 percent. The peasants' moans can be heard everywhere. Furthermore, in some rural areas, the tense relationship between cadre and peasant cannot be overlooked.

2. Difficulties faced by growth in peasant income. Causes: In the first place, the need to control/regulate agricultural growth tends to be stronger. In 1984, after consumption in the town and village went above the subsistence level, even when the amount of agricultural products per capita for the Chinese population on the whole was still rather low, the people were beginning to experience a controlled demand as signs of difficult sales appeared. From 1986 on, the food needs and up. However, about 40 to 45 percent of peasant income was derived from agriculture, of which about 30 percent was food. As the result, a drop in peasant income was a must.

Next, the benefits from investing in agriculture continue to drop. In the past, one jin of chemical fertilizer yielded 3 jin of food. Now, it is 3 jin for one jin of food. Changes in basic agricultural facilities have caused this gradual reduction in benefits from agricultural investment to show up prematurely, so that the comparatively favorable agriculture index (the ratio derived from a nation's agricultural exports as a proportion of total world trade) shows a big drop. In 1970, this figure was 2.3 percent; in 1987 it had dropped to 1.2 percent.

On top of that, increases in nonagricultural income experienced a pullback, due first, to the fact that the average utilization rate of enterprise capital on the village and town level went down, and excessive competition occurred on a low level. The second reason is that growth in town and village enterprises showed a tendency toward capital concentration. In 1978, for town and village enterprises, the average expenditure for fixed asset equipment per employee averaged 2,000 yuan, but this figure grew to 5,500 yuan in 1991. Employment

resilience in the growth in output value of the town and village enterprise was 0.3 in the 1980's (that is, for output growth of 1, the growth in employment resilience is 0.3), but dropped to about 0.1 in the 1991-92 period. For town and village enterprises, the growth rate is due even more, to use of capital, and not to more intensive use of labor, which, in turn, reduces the nonagricultural income received by the peasants.

II. Restructuring and Developing Markets the Main Direction for Developing the Agricultural Economy

Some specialists indicate that the focus of the agricultural problem, under the premise of how to assure stable growth of the total agricultural supply, should be on how to better adapt the supply structure to changes in demand structure, and to assure stable growth in peasant income to gradually reduce the difference between that received by the small working peasant and those with town and village income. Because the growth in peasant income is facing difficulties, the traditional selection used to break down the rigidity in income growth calls for opening up the prices of agricultural products and increasing government subsidies. Use of the first is due to restricted demand for agricultural products and opposition from the world market (the price for oils in China is higher than world prices, but prices for other agricultural products are close to those of the world market), which must lead to control by world market prices. The latter approach is used because the proportion of peasants in China exceeds 80 percent of the population, and government subsidies are provided on a general basis. But supplements cannot fill the gap, and distorting prices is not favorable to agricultural development and growth itself. Therefore, a method can only be found beyond these two approaches—that is, a massive restructuring to cultivate the market.

Restructuring is done on three levels: one is inner restructuring of the planting and growing industry, which calls for intensive development of a high-quality highly efficient agriculture; the second is a restructuring on the village level, chiefly of the agricultural and nonagricultural segments as these are the primary sources of income. On the town and village level, the interest increase in capital cost for enterprise development and the drop in profits are related to this irrational production scenario, and the fact that they are developing at the same pace as urban enterprises.

III. An Approach To Leading Peasants to a Market Economy

1. Great opportunity to seize restructuring to fully estimate the status of food supply and demand.

Some specialists feel that estimates on fluctuations in the demand and supply of food cannot be too serious. The planted food acreage this past fall and winter and that predicted for the whole year is 21.6 million mu less than the planted acreage for the year before. A predicted drop in the range of 1.3 percent. If the grain supply facing China at present is still greater than demand, there

is the worry of too much on hand. Not only is there no need, it is possible for a mistaken signal to be sent and the opportunity to continue with the restructuring is thus lost. If everybody says it cannot work with food, it is possible to take abrupt measures to restore the plan for food grain planting, while strictly limiting the peasant's planted grain acreage. Therefore, it is necessary to have a thorough estimate of the supply and demand situation for grain. Since great attention must be given this matter, the focus is not to let this successive drop in output to continue (by taking measures such as allowing the lowest support price and the highest ceiling price for agricultural production materials to phase in, and thus speed up establishing a control system that goes from a grain planning system in transit to a market economy system). On the other hand, we should not place too much emphasis on this signal, as this is not favorable toward further restructuring. In this area, it is important to emphasize control by the central and provincial governments at different levels.

2. Creating new organizations, developing commercial worker-peasants, and integrating production, supply and sales.

Some specialists feel that in the past even when the prices on purchase orders for agricultural products were low, orders from the state were always depended on. Now, after the food grain supply has been opened up nationwide, a situation is seen of "blaming orders when it is possible to place them, and wishing to place orders when it is not possible to do so." Characteristics spread throughout the small scale peasant style of production have allowed China's peasant households to react in a synchronous stride toward the market. So it is very necessary to provide government assistance to peasant households in their production and sales operations. One way is to establish an information system which draws the peasants from a believable roadside information mode to one where a sign or signal formally issued by the government is trusted.

Second is organizational renewal, developing commercial worker-peasants, integrating the processes of production, supply and sales, creating an open organization of peasants, establishing a self-protective mechanism among them, and helping them to internalize natural and market risks to form a new beneficial structure that will coordinate production, supply, processing and sales to build a stable channel (such as establishing a supply store to benefit the neighborhood community, or forming a special sales and supply cooperative, or forming an integrated operation for worker-peasants of various economic levels engaged in overlapping occupations and/or living in overlapping areas).

Third is immediate reform of the financial system by identifying policy finance, business finance, and cooperative finance which assures the timeliness and effectiveness of agricultural investment. In recent years, the main reason for coming up empty, and capital collection and retention were ineffective, was including a credit unit in

the agricultural banking system. This is a financial organization where the worker and the peasant are engaged in internal conflict. On one hand, it is a financial tool of the state as well as a tool for the government's property policy which guarantees purchase capital and agricultural loans. In another aspect, banks themselves are already engaging in enterprise reform, and investing wherever the interest rates are high is the necessary result of the benefit motive. Therefore, investing capital in business and town and village enterprises is only logical, but having the agricultural bank assume two different roles is very difficult.

Consequently, we must start from organization and function to conduct a thorough reform of the state's finance mechanism on the rural level, and divide finance into three parts: policy finance, business finance, and cooperative finance, the responsibility for which is assumed by the various organizations themselves. Policy finance is a production tool backed by the state's financial subsidies. It is checked out by the state to assure its guarantee of the monetary investment and the purchase capital for agricultural products, with no interest requirement. As for business finance, the state does not subsidize anything, but it manages itself according to the capital invested, and it bears any profit or loss by itself. Cooperative finance is organized by the village within its limits to serve itself only. Specialists indicate emphatically, that the importance of setting up the three rural finance systems just mentioned lies in the fact that these systems can support any production breaks that may not be obvious during the restructuring process. Otherwise, without the support of such systems, it is very possible for problems to appear during restructuring. This, at the very least, is a transitional form of policy design to last several decades as a planned economy converts to a market economy.

On the basis of Thailand's agricultural development experience, some specialists propose that for China where small scale agriculture is dominant, for it to depend only on urbanization, industrialization, and use of high-tech for agricultural production to penetrate the world market is not realistic. A realistic selection is to find the link and fulcrum between the government and the peasants. This link and fulcrum are the various service companies (such as Thailand's Zhengda Cartel which is a large agriculture and animal husbandry-based company). Such companies and the government have different roles. The latter only sets policy and concentrates its primary energy on macroeconomic control and legal matters. On the other hand, the companies and the peasants, through cooperation and linkage, integrate all benefits, converting peasant activities that used to come under the state to come under the company. The company and the peasants sign a purchase sales contract whereby the peasants become responsible to the company, and the company assumes various risks and hazards that may occur during production and operation. This dispels some of the market risks for the peasants.

As the result, specialists suggest that China must integrate the state's contract system with the company's, and wherever possible, assign some of the contracts to company enterprises, and place the rural development economy and organization restructuring on a nongovernment organizational base. At the same time, it should develop a credit company to serve middle class peasants, form and support strong village-level companies, organize large collective-level companies, and use the company form of organization to increase the market competitiveness of the peasants.

3. Reforming the finance and taxation system, and implementing, as soon as possible, a tax, lease, and fee system that is understandable and clearly stated. The basic reason for the heavy load born by the peasants is a confusing taxation system. This has led to a confusing hodgepodge of fees and penalties. This very serious problem is an obstacle preventing peasant participation in the market economy and must be resolved as soon as possible. These tax, rent and fee problems must be cleared up so that the load born by the peasants can be carried out in accordance with the law.

4. Changing the government's function to assure that peasants enter into a market economy. Specialists indicate that the key for doing so hinges on how the government can create an environment, conditions, system, and organizations that are favorable to this purpose. The success of these outcomes depend on government action. The problem at present is that what the government should do is not done, and what it should not do, is done. Herein lies the crux of the matter.

Report on Implementation of State Grain Policies

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[CHINA'S RURAL ECONOMY] in Chinese No 6,
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[Report by Tang Renjian (0781 0088 0256) and Huang Yanxin (7806 1693 0207), affiliated with the Ministry of Agriculture's Policy and Law Office: "Policies Are Good but Implementation Is Difficult, Survey on the Implementation of State Grain Production and Sales Policies"]

[Text] On 23 February 1993, the pertinent State Council ministries and commissions published several grain output and sales policies, such as establishing a guaranteed price system for grain purchasing, improving the "three-link" payment method for grain and cotton, strengthening agricultural capital goods pricing control and applying beyond-plan maximum constrained prices to key varieties, adjusting tax rates on farming, forestry, and specialty products, and supporting economic development in key grain-producing areas. This is the first time that China has openly published grain output and sales policies, some of which were of institutional-establishment significance. This will undoubtedly impact many areas of China's grain output and circulation. As to issues, such as whether these policies can be

implemented, what problems still exist in their enforcement, whether peasants can benefit economically from them, and whether they can speed up grain output development, we conducted on-site investigations in the two provinces of Sichuan and Guangdong, and are reporting the grass-roots conditions here:

In general, in the overall setting of China's current grain market slump, too low market grain prices, agricultural capital goods prices rising steadily, grain efficiency being comparatively poor, and the slide facing our grain production, the State Council's publication of grain production and sales policies was exceptionally timely, clearly telling peasants the news that the government is paying attention to grain production and will not allow grain-cultivation peasants and producing areas to suffer. This will play an important policy-guidance role in stimulating the initiative of peasants and producing areas to develop grain production, and in stabilizing China's grain production.

But the grass-roots widely report that while these policies are apparently doable, careful analysis shows that they lack substance, and even where they are substantial, will be exceptionally hard to implement. Even more alarming is that once some of them are enforced, they will not only not give peasants more real cash income, but will increase burdens instead, further sapping peasant production initiative, and obstructing the development of high-yield, -quality, and -efficiency agriculture.

I. Key Problems

A. On the Problems Involved in Establishing a Protective Pricing System for Grain Purchasing

Grass-roots cadres unanimously noted that this policy was basically empty, not having and being unable to have an impact.

1) The scope of protection is too narrow. The scope of application of guaranteed pricing provided by the policy is limited to grain for the former state procurement quota system and special reserves, where selling difficulties certainly do not exist. The worse selling problems involve mainly negotiated purchasing and sales. When market grain-selling problems arise and grain prices fall more, peasants want the government to open up grain purchasing at protective pricing for grain other than that for the state procurement quota system and special reserves. Grass-roots cadres are unanimous about the scope of protective pricing for grain purchasing being too small, leaving it unable to play a protective role for grain production. Moreover, since 1992, some Chinese provinces and most prefectures, cities, and counties have deregulated grain pricing and operations, abolishing the state grain procurement quota system duties. In these areas, while the state has emphasized the need to continue signing purchasing contracts, many regions actually are not essentially signing purchasing contracts for a number of technical reasons. So as far as the peasants in these areas are concerned, there is actually no protective pricing for grain purchasing.

2) Guaranteed prices are set too low. 1) While the policy principle in setting grain purchasing protective prices is to compensate for production costs and give producers their due profits, the set grain-purchasing protective prices are too low, being not only under the market grain price, but even below the grain-cost price. The fiscal purchasing protective prices set by the State Council for 1993 by variety and grade are: 31 yuan per 50 kg of southern winter wheat (medium-quality grade, and similarly hereinafter), and per 50 kg prices for long-grain nonglutinous rice of 21 yuan for the early variety, 26 yuan for the mid-season variety, and 28 yuan for the late one, and 31.5 yuan for southern (unclear text) rice. On Guangdong markets at present, the prices per 50 kg are up to 40-50 yuan for these three varieties of rice, and 50-60 yuan for high-quality paddy rice. As to production cost, in 1992 the per 50 kg production cost for rice was 38 yuan in Guangdong's economically undeveloped Shaoguan City, 42 yuan in medium-developed Zhaoqing City, and as high as 50 yuan in developed Zhao City. Similar conditions exist in Sichuan Province. So the grain-purchasing guaranteed prices set by the State Council are obviously too low, being roughly equivalent only to grain production cost, and in some places even lower. 2) Reduced grain output is a certainty for 1993, with rising market grain prices being the general trend, meaning that market grain prices could not be lower than guaranteed prices for the time being.

In reference to agricultural production, particularly grain output, many peasants say that while governments and leaders at all levels consider it to be important, particular policies are always unfavorable to peasant development of grain output.

B. Problems Involved in Improving the "Three-Link" Payment System for Grain and Cotton

The State Council has provided that for grain and cotton production beginning in 1993, the state is changing its parity-price supply in kind of chemical fertilizer and diesel oil in support of grain and cotton output to a money form, by paying peasants in an added-price form for the parity-negotiated price-difference beyond the purchasing price, with grain advance-purchase downpayments being advanced to peasants at 20 percent of the purchase price when grain departments sign grain-purchase contracts with peasants. While improving the "three-link" system for grain and cotton is aimed at really giving peasants its economic benefits, grass-roots cadres express deep concern over whether peasants will reap the benefits from improving this system.

1) The change in the "three-link" payment system for grain and cotton involves only one from the former benefit in kind to a direct payment of money to peasants, which certainly does not give peasants added benefits.

2) While the change in the "three-link" payment system for grain and cotton is aimed at reducing intermediate losses, and in theory can do so to benefit peasants, the

particular operation of the payment of commodity parity-negotiated price-difference funds in the "three-link" system by the purchasing sector produces an even greater loss of benefits, still keeping peasants from acquiring their deserved benefits.

3) When there are bumper grain harvests, abundant supplies, and falling market prices, the purchasing sector can purchase more grain on markets at lower prices and less quota-system and special-reserves grain, while over-reporting to state revenue its quota-system and special-reserves grain purchases, keeping the "three-link" commodity parity-negotiated price-difference funds, thus obtaining state financial subsidies through less purchasing and overreporting.

4) Under current conditions of quite large grain inventories, the purchasing sector can purchase less new grain to deal with stored grain, substituting stored grain for new grain to obtain "three-link" commodity price-difference funds from state revenue. In this way, the purchasing sector reduces its inventory burden, acquiring economic benefit, while peasants not only do not receive "three-link" commodity parity-negotiated price-difference funds, but are even subjected to man-made grain-selling problems.

5) When grain supplies are abundant, the grain operating sector can force down the grain-production price when purchasing grain, making it lower than the market price, then adding "three-link" commodity parity-negotiated added-price funds, to bring the grain-production price up to the market price. This makes it seem as if the purchasing sector is paying peasants beyond-price added-price funds, while peasants certainly are not receiving any real extra income.

6) When grain supplies are abundant, the grain operating sector can also force down grain grades to covertly force down grain-producer prices when purchasing grain, in which case even if peasants receive "three-link" commodity parity-negotiated price-difference funds, their real cash incomes still do not go up.

In short, the grain operating sector's payment to peasants of "three-link" commodity parity-negotiated price-difference funds lacks openness and oversight and is tied to departmental interests, so that the change in operating form is simply of intermediate-loss channel or form, i.e., from the agricultural goods sector to the grain sector, but does not really give these benefits to peasants.

C. Problems Involved in Applying Maximum Constrained Prices to Agricultural Capital Goods

The application of maximum constrained prices to agricultural capital goods is aimed at conscientiously protecting peasant interests. While it is well-intentioned and welcomed by peasants, this policy is generally a typical case of rights and interests trickery, with attention to one and lost sight of the other, which is not comprehensive as to the relations between the interests of all parties, and is extremely hard to enforce.

1) Setting rational constrained prices for agricultural capital goods requires thorough research. If they are set too high, they will not have the proper impact of protecting peasant interests. If they are set too low, while they will certainly reduce peasant spending on agricultural capital goods, they will inevitably cause profit losses for production enterprises. Particularly when power and raw materials prices are deregulated, production enterprise losses increase correspondingly. So constraining the producer prices of key agricultural capital goods, such as chemical fertilizer, will be resisted by production enterprises, making it very hard to enforce. Moreover, the grass-roots reports that restrained prices set at current highest market prices has a very limited impact in protecting peasant interests.

2) It is hard to set uniform constrained prices for small chemical fertilizer plants. China has some counties with small chemical fertilizer plants and some without, with production costs and shipping distances and costs varying by plant and region, making small chemical fertilizer production a matter of "one county, one price." So it seems that it would be basically impossible and wrong to set a national uniform restrained price for all provinces or even a region. As peasants actually buy more chemical fertilizer at market prices, if constrained prices are set or not set rationally for chemical fertilizer, peasant interests will remain unprotected.

3) The pull on agricultural capital goods prices that have not yet reached the constrained-price level is "upwards." The prices of much chemical fertilizer on the market have certainly not yet reached the constrained-price level. Particularly once the selling prices of formerly linked parity-price chemical fertilizer and diesel oil have been deregulated, this "upward" trend will be further exacerbated. This will obviously increase instead of decreasing peasant production expenses, further dampening their production initiative.

4) Agricultural capital goods supplies are being artificially "blocked." As it is hard for the published constrained-price levels and regulations to balance the interests of all parties, some areas have abundant chemical fertilizer resources, but will not sell them at high prices for fear of violating policy or at low prices out of concern for supply and marketing cooperative losses, leaving chemical fertilizer in warehouses with no one willing to sell it, causing artificial supply "blockages."

D. On the Problems Involved in Adjusting Farming, Forestry, and Specialty Product Tax Rates

The farming, forestry, and specialty product tax policy conflicts with the development of "high-yield, -quality, and -efficiency" agriculture, being a glaring problem reported in the current rural economic development process. The State Council recently decided to continue to apply national uniform tax rates for staple farming, forestry, and specialty product income: this lowers the rate on income from saltwater and freshwater breeding from 10 percent to 8 percent, including a reduction from

15 percent to 8 percent for income from aquatic treasures; puts the rate on income from fruit at 10 percent, including lowering the rate on income from oranges, bananas, lichees, and apples from 15 percent to 12 percent; lowers the rate on melons from 10 percent to 8 percent; and reduces the rate on income from logs from 8 percent to 7 percent. While this lowering of farming, forestry, and specialty product tax rates should certainly slightly reduce the tax burden on state farming, forestry, livestock raising, and fishery enterprises that are subject to audited taxation, the burden will be increased instead of lightened as far as the vast numbers of farmers are concerned. While the nominal tax rates on farming, forestry, and specialty products were too high before their current reduction, as the examination and approval authority for farming, forestry, and specialty product tax reductions and exemptions has been devolved to provincial and plan-list city governments, revenue and tax departments in all areas take into consideration when collecting farming, forestry, and specialty product taxes that the rates are obviously too high and the taxes are certainly hard for peasants to pay, so grant peasants preferential treatment in areas, such as tax rates and taxable output calculations. The real farming, forestry, and specialty product taxes that peasants pay are far lower than the nominal tax rates set by the state. Ministry of Finance figures for 1991 show that the real average tax burden nationally for farming, forestry, and specialty products was 2.24 percent, including 3.07 percent for apples, 2.31 percent for oranges, 3.08 percent for timber, 0.95 percent for freshwater fish, 2.51 percent for tea, 4.63 percent for natural rubber, and 2.35 percent for fruit melons. It was under this tax burden that grass-roots cadres and peasants still generally reported too heavy taxes being adverse to agricultural production structural adjustment and the development of "high-yield, -quality, and -efficiency" agriculture. While the current nominal tax rates for farming, forestry, and specialty products have been slightly lowered, the reduction was too small, and the examination and approval authority for tax reductions and exemptions has not clearly continued to be devolved. So taxation at the published nominal rates will obviously further increase peasant tax burdens. Thus, it will have a negative regulatory impact on agricultural production structural adjustment and on the development of "high-yield, -quality, and -efficiency" agriculture. Peasants say that "while the government has once again called on us to speed up the adjustment of our agricultural production structure, demanding in 1992 that we develop high-yield, -quality, and -efficiency agriculture, its particular policies keep us from doing so, leaving us wondering what it is up to."

In short, it is absolutely impossible to hold that the publication of grain production and sales policies will solve existing grain-production development problems, or that the slight lowering of farming, forestry, and specialty product tax rates will lighten peasant tax burdens to speed up agricultural production structural adjustment or the development of "high-yield, -quality,

and -efficiency" agriculture. Such thinking would produce sharp policy errors in the guidance of rural work, and have an adverse impact on agriculture, particularly grain and the development of "high-yield, -quality, and -efficiency" agriculture. So in order to conscientiously protect peasant interests, and spur peasant production initiative, based on stable grain production, to promote the development of "high-yield, -quality, and -efficiency" agriculture, the relevant policies must be further revised and improved.

II. Policy Recommendations

A. On Guaranteed Grain-Purchasing Prices

1) We need to suitably expand the scope of guaranteed prices for grain purchasing. For other than state fixed-quota and special-reserves grain, we should purchase a certain amount more grain at guaranteed prices, with it being best to open up such grain purchases at guaranteed prices.

2) We need to appropriately raise the guaranteed grain-purchasing prices. In light of the principle that grain purchasing prices must be set to compensate for production costs and allow suitable profits, the guaranteed grain-purchase prices should be suitably raised, with it being best that they are no lower than current market grain sales prices, and at least no lower than the former fixed-quota prices and "three-link" commodity parity-negotiated price-difference levels.

3) We need to emphasize the implementation of grain-price risk funds. The key to whether guaranteed grain-purchase prices can be paid and in what amount is a correspondingly stable fund guarantee. This is because when market grain prices fall sharply, while policy may permit appropriating special revenue funds to purchase some grain, this would be a very hard decision to make, and even if it was, complex formalities would make the decision too slow and leave opportunities missed. So we recommend that the State Council assign the pertinent sectors deadlines by which to draw up detailed plans for establishing grain-price risk funds. Due to our current state revenue shortage, all fiscal subsidies saved through grain circulation reform should be used to set up a grain-price risk fund, instead of being diverted to other uses. The establishment of a price risk fund would require only a one-time state revenue input, nor would it add to fiscal spending, as the price risk fund would be revolving, not requiring additional price risk funds from state revenue each year.

B. On Improving the Grain and Cotton "Three-Link" Payment Method

To ensure that the "three-link" parity-price chemical fertilizer and diesel oil that peasants receive is truly changed to post-negotiated price parity-negotiated price-difference funds, while spurring state grain enterprises to convert their operating forces, and based on the principle of openness, overseeable, and operable, the grass-roots

recommend that "three-link" commodity parity-negotiated price-difference fund payments adopt the method of separation of cash from grain. This means that the grain sector would be responsible only for purchasing grain from peasants, with "three-link" commodity parity-negotiated price-difference funds not being paid to peasants by the grain sector, but rather being appropriated by state revenue to township governments, which would designate a department, such as a township agro-economics station, a revenue office, or the banking sector, to be responsible for paying peasants, leaving peasants able to take grain-sector purchase-proofs to the designated township government department for payment of "three-link" commodity parity-negotiated price-difference funds. This could avoid the problem of loss of benefit to peasants when collecting the "three-link" commodity parity-negotiated price-difference funds which, if peasants still could not get under these conditions, it would be easy to track down the government responsibility for.

C. On the Problem of Constrained Prices for Agricultural Capital Goods

As to constrained prices for agricultural capital goods, provincial maximum constrained prices that have not yet been published should now be published as quickly as possible, effective steps should be taken to firmly control maximum sales prices for agricultural capital goods, and the authority for setting rational chemical fertilizer constrained prices based on local conditions should be devolved to county-level people's governments. In the long-term, we need to resolve the matter of fiscal subsidies to agricultural-use industry. The grass-roots hold that even if grain and cotton prices are completely deregulated, agricultural capital goods prices should not be as, under similar market conditions, farm product comparative advantages and trade terms are never up to those for manufactured goods. Resolving this matter means that the state must either provide direct subsidies to peasants, or subsidize agricultural-use industrial enterprises. On comparison, the latter could basically control agricultural capital goods prices, by enabling peasants to keep producing at low material cost, while resolving the losses of production enterprises. As about one-half of county revenue departments throughout China are now "existing on state revenue," it is recommended that the state collect from all industrial and commercial enterprises agricultural-use industry special funds (such as power, transportation, and key construction funds), to be used in support of agricultural-use industry development.

D. On Further Revising Farming, Forestry, and Specialty Product Tax Policy

The grass-roots widely report that farming, forestry, and specialty product taxes are local ones, making it unnecessary for the central government to set uniform high tax rates, with provincial and plan-list city people's government deciding things, such as whether to collect farming, forestry, and specialty product taxes, taxable varieties,

and tax rates. As local governments are best informed about local conditions, they are most clear about which tax policies will contribute to local agriculture structural adjustment and optimization. But if we are to continue practicing a central uniform farming, forestry, and specialty product tax policy, then we will need to emphasize finding solutions to the following problems:

1) We will need to rationally determine the taxable farming, forestry, and specialty product varieties. We recommend that staple farm products, such as fruit, aquatic products (excluding aquatic treasures), tea, fruit melons, and natural rubber, no longer be included in farming, forestry, and specialty product taxable varieties.

2) We need uniform lower tax rates. Except for certain highly-profitable rarities, farming, forestry, and specialty product taxes should be uniformly lowered to the pre-1989 level prevalent in all areas of 3-5 percent.

3) We need to practice "output-related tax calculation." All taxpayers should be subject to taxes based on land and water area output, to be fixed for a certain number of years.

4) We need to avoid duplicate taxation. All farm products on which product taxes have been paid should no longer be subject to farming, forestry, and specialty product taxes, with taxes being collected only at the final production link for the same product.

5) We need to continue devolving the examination and approval authority for farming, forestry, and specialty product tax reductions and exemptions to provincial and plan-list city people's governments.

Jiangsu Rural Savings Increase

93CE0887A Beijing NONGMIN RIBAO in Chinese
10 Sep 93 p 1

[Summary] As of 10 August, rural saving deposits in Jiangsu Province totaled 40.25 billion yuan, an increase of 4 billion yuan, or 10 percent since the beginning of the year. Rural per capita savings increased from 673 yuan at the end of 1992 to 745 yuan. During the summer procurement period, agricultural banks provided 720 million yuan in funds, no IOUs were issued in Jiangsu during this period.

National Rapeseed Area, Output

93CE0887B Beijing NONGMIN RIBAO in Chinese
8 Sep 93 p 2

[Summary] In 1993, the area sown to rapeseeds in 12 major-producing regions was 72,210,000 mu, a decrease of 10,460,000 mu from 1992. The per unit area yield was

76.5 kilograms, a decrease of 9.5 kilograms from 1992. Gross output declined 23 percent from last year.

Over the past few years procurement of oil crops has increased, but sales have decreased, which has led to overstocking, and declining market prices. Farmers have difficulty selling oil crops, and in some areas IOUs have been issued. In addition, the price of farm production materials has increased, and profits have declined, thus reducing farmer interest in planting oil crops.

Hunan Hog Output Increases

93CE0887C Beijing *NONGMIN RIBAO* in Chinese
8 Sep 93 p 2

[Summary] According to estimates, by the end of September Hunan Province will have removed 24.98 million hogs from inventory, an increase of 1.5 million hogs, or 6.4 percent over the same period in 1992. The number of hogs in stock will be 30.61 million, an increase of 570,000, or 1.9 percent over the same period in 1992.

Rising Rural Divorce Rate Explained

93CM0461A Beijing FAZHI RIBAO in Chinese
6 Aug 93 p 4

[Article by Su Haoliang and Xu Na: "The Divorce Phenomenon in Rich Rural Areas"]

[Excerpt] [passage omitted] In rich rural areas south of the Chang Jiang, with the changes in economic life, in recent years the divorce phenomenon has also become ever more prominent. In a rich county in Jiangsu, since the start of the 1990's the number of divorce cases handled by the courts has kept rising: there were 563 cases in 1990, accounting for 51.3 percent of all civil cases; 572 cases in 1991, accounting for 53.2 percent of all civil cases; and as many as 746 cases in 1992, accounting for 54.8 percent of all civil cases. The divorces by consent were not counted here.

According to many sociologists, in China 70 percent of the marriages are mundane marriages. The conflicts between the husband and wife are in a large part due to economic factors; "they fight all the time, and they fight because they are poor."

In the early 1980's, township enterprises emerged and grew rapidly. As a result, not only have large numbers of peasants begun to get rich, but their ideas, behavior, and lifestyles have also been molded and reformed by modernized large-scale production, with their quality being improved. Previously, the husband and wife would pull up and transplant seedlings together on the same land, and could not display their different qualities. In recent years, with people's potential talent being fully displayed, the gap between the husband and wife in areas such as spiritual outlook and mental quality has grown.

There was a couple. The husband was a honest farmer, and very diligent; he also had good melon-growing techniques and was thus envied by the villagers. In recent years, the wife went to work at a township-run factory, and became a low-level cadre at the factory. Afterwards, she also conducted large business operations at the business offices outside the local area. Gradually, she became estranged from the husband, and found it hard to talk to him, regarding the husband as too "uncouth." The growing rift led her to file for divorce. The husband cried bitterly, for he had made great sacrifices in the course of running the household....

A had a rather perfect family. The wife F was beautiful and virtuous, and they had a son. Later, A became the manager of a certain unit. With the change in his status, he developed an extramarital affair through socializing, and began to change in terms of his affections. As a result, he filed for divorce at a court. Before the court, Y said: "Whether there will be a divorce or not, I will take care of my mother-in-law and the child." The court criticized A, holding that A was morally inadequate, and rejected the divorce request. But, A would not give up; he stopped providing support for the family. He applied pressure and filed for divorce every six months; but the

court still refused to allow him to get the divorce. The court also asked the third party's parents to intervene; as a result, the third party severed her relation with A. A and Y restored their relationship in the end, and are now living a happy life.

However, in real life, one often hears about tragedies of family dissolution caused by one spouse's change in regard to affections. A gentleman, who is over 50 years old this year, developed a relation with a business officer of his factory after becoming the director of the factory, and filed for divorce, claiming that he and his wife no longer had affections for each other. Question: "As you now have four children, how can you say that you have no affections for each other?" Answer: "There were affections before, but no affections now." He also listed a series of problems of the wife: fat, lazy, not good at housework, not good at entertaining guests, etc. The wife could not but agree to the divorce, sighing helplessly.

During news-collecting activities, this author has found that many couples were childhood best friends and had a good basis affectionately; some men had pursued the women very hard because they were not in good conditions during the dating period and because therefore they faced opposition from the women's parents; some of them had enjoyed selfless help from their spouses before they became important. Nevertheless, after having food and clothing, people would think about women and luxury. Many people, after becoming "important," would ignore the wives' crying pleading, and walk away "resolutely." They did not know that many people would condemn them behind their backs.

A large proportion of the divorce cases handled in recent years involve outsider wives, and most of such wives are plaintiffs in the cases; it is the outsider wives who have taken the initiative in "divorcing their husbands."

Girls get married to people far away mainly because they long for a better life. They use marriage as a tool for changing their fate. Immediately after arrival, they would feel satisfied for the time being as they compare the conditions with those at their home villages. But, after a year or more, those outsider wives would have come to know the outside world through working at factories, they would find that their husbands' households are still rather poor or that their husbands are not active amidst the great tide of commodity economy. Thus, they would gradually develop discontent; since the affection basis is very weak, family "rifts" would quickly occur.

An outsider young woman was only 18 years old when she came. At that time, she was thin and small, like an unattractive "ugly duckling." Two or three years later, she became plump and her skin became whiter. With some dressing up and makeup, she turned into a "swan." She entered a factory and learned skills, broadening her horizon. At the age of 25, she became even more energetic, and, together with others, went to work in Guangzhou. She now wore fashionable clothes, and became

Westernized in behavior. Finally she got divorced from her rural husband and married to a person in Guangzhou.

Even more horrifying is that mahjong has also become a "third party," and that those foreign-originated pornographic materials have become the catalysis of family fissions....

The evil gambling habit left over by the old society and the decadent bourgeois lifestyles recently imported from the West are also playing roles which should not be underestimated. According to the data provided by a court, 40 percent of the divorce cases were directly caused by gambling: As one spouse becomes addicted to the card table, and would engage in gambling all the time, the other spouse cannot but file for divorce, after trying futilely to persuade the spouse to give up gambling. In a well-off family, the husband was a business officer at a factory, and the wife was running a small general store, living a happy life. But, the wife became addicted to gambling; the husband tried to persuade her to give up gambling, but she would not listen. In the end, she gambled away the small general store. Before the

court which pronounced the divorce judgment, the wife frankly admitted that she still had gambling debts totaling over 20,000 yuan....

Many divorce cases involve gambling. When dividing up the properties, it is often found that some of the family-owned gold necklaces, gold rings, and certificates of deposit are gone, and have already been gambled away. People working at the courts said, while sighing with feeling: "Gambling has made it increasingly difficult to handle the cases."

A small number of people commit immoral deeds as they have been poisoned by pornographic books and audio tapes in society, resulting in the dissolution of their families. There are many such cases. A director of a village-run plant acquired venereal disease through visiting prostitutes, and infected his wife with the disease. The wife filed for divorce. A woman watched a pornographic video and got poisoned. Less than three days later, she had sex with another man. The husband discovered the affair. Although the women admitted her mistake, the affectional cracks could not be repaired; ultimately, they got divorced. In view of this, a lawyer said figuratively: "Gambling and pornography are the two main causes of the family cancer." [passage omitted]

Factors Affecting Taiwan Economic Development

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[Article by Wang Jianmin of the Institute of Taiwan Studies Under the Chinese Academy of Social Sciences: "Analysis of Basic Trend and Pattern of Taiwan's Economic Development in 1990's"]

[Text] The 1990's will be an era for the reorganization of world economic and political patterns and also a crucial period in which Taiwan's economy becomes that of a well developed society. While the island's situation internally and externally is undergoing historical changes, the Taiwan authorities have formulated the 1991-96 Six-Year National Development Plan in an attempt to once again invigorate the economy so as to push Taiwan's economy to a new height and enter the 21st century as an industrially developed society.

I. Opportunities and Difficulties Ahead

In the 1990's, Taiwan's economic development will be affected and restrained by all kind of possible opportunities and unfavorable factors. The favorable factors we can foresee right now are as follows:

A. A comparatively favorable international environment. Military confrontation has given way to economic development and cooperation. In particular, the increasingly close economic relations in the Asian-Pacific Region and the sustained rapid economic growth in East Asia are favorable to Taiwan's economic readjustment and development.

B. Taiwan's liberal market economy system is improving daily. Since the mid-1980's, Taiwan has formulated the strategy of liberalizing, internationalizing, and institutionalizing its economy, and carried out economic reform on a large scale. The Taiwan authorities have reduced their administrative interference in the economy, while tightening their macroeconomic control and regulation in the realms of financial affairs and banking. Taiwan's economic laws and statutes are daily improving, and its liberal market economy system has been basically established. Especially in order to join GATT and further open up its market, Taiwan will further liberalize its economy. All this has created fine conditions for Taiwan's entry into the society of industrially developed nations.

C. Fairly great economic strength. Taiwan's total foreign trade volume reached \$139 billion in 1991, ranking 14th in the world. Right now, its per-capita GNP is approaching \$10,000, putting Taiwan in the front ranks internationally. Its gross national wealth is New Taiwan [NT]\$26 billion. Calculated on the basis of the 1989 "real gross national product," which was NT\$3.78 billion, the proportion of gross national savings to the GNP should be 6.86 times. Right now, bank deposits have reached \$300 billion. If gold reserves and the underground economy are taken into consideration, the total

amount of deposits may reach \$600 billion (September 1992 issue of the Taiwanese magazine COMMON-WEALTH). This shows Taiwan's great economic strength, which is a basic guarantee for its economic development. Meanwhile, Taiwan has a tremendous amount of foreign exchange reserves, reaching \$89 billion, ranking first in the world. This is a basic guarantee for Taiwan in carrying out construction on the island, in expanding imports of needed raw materials and energy sources, in introducing technologies and equipment, and in exporting capital.

D. Cross-strait trade and Taiwan businessmen's investments on the mainland have become one of the important forces in promoting Taiwan's economic growth. The rapid development of economic relations between the two sides of the strait has provided Taiwan with a huge market. The vast sources of raw materials and the relatively harmonious external environment are conducive to Taiwan's economic development.

Nevertheless, factors of uncertainty still exist in the 1990's in the international situation. Forces of all kinds are regrouping, and some unfavorable factors also exist on the island of Taiwan with regard to its economic development. It is impossible for Taiwan to develop its economy smoothly. Taiwan is still faced with a series of problems and challenges, a situation manifested in the following:

1) The supply of international funds is in shortage due to reconstruction projects for the Commonwealth of Independent States, East Europe, and the Middle East. In addition, the investment climate in Taiwan has relatively deteriorated. Direct investments from overseas and foreign businessmen have been gradually decreasing since 1990. This trend will continue and hurt Taiwan in attracting foreign capital and importing technologies.

2) Taiwan is weak in the field of science and technology and basic research. Its investments in research and development are insufficient, and it does not have enough scientists. This prevents Taiwan from upgrading its industries and pushing its economy to a new height.

3) Taiwan is short of manpower and land. The supply of cheap labor was one of the reasons for the rapid economic development in Taiwan. Since the late 1980's, Taiwan has suffered a labor shortage and the cost of labor has soared, increasing the production costs of all enterprises. An estimate shows that for the next six years, Taiwan will need a grand total of 1.41 million technical personnel and 390,000 ordinary laborers. It is short 800,000 people in terms of manpower (September 1992 issue of the Taiwanese magazine EXCELLENCE). Land is limited in Taiwan, and it is extremely expensive. In addition, the tendency of land speculation prevails, fueling the increasingly high cost of land. This seriously affects construction projects.

4) The change of political pattern has not been completed in Taiwan, and the power struggle there is intensifying. Money politics is gaining ground. Legal procedures are often delayed in deciding and examining major economic projects because of problems caused by conflicts of interest. It often takes a longer time to go through any legal procedure, and it is also difficult to draw an impartial conclusion. This will greatly affect Taiwan's economic development.

II. Appraisal of Basic Trend and Pattern of Taiwan's Economic Development in 1990's

Despite the aforementioned unfavorable factors and difficulties, Taiwan's economic development in the 1990's will not see serious obstacles impeding its progress. On the contrary, Taiwan can still rely on its great economic strength and extensive public investments to attain sustained and steady economic developments, thanks to the relatively favorable international environment. Taiwan's entire economic outlook and structure will undergo tremendous changes. By the end of the 20th century, the embryonic form of a developed nation will appear in Taiwan. The trend of Taiwan's major changes will be manifested as follows:

A. Taiwan will enjoy moderate economic growth. Its commodity prices will remain stable with a slight upward tendency. It will increase its per capita GNP on a large scale. Since the beginning of the mid-1980's, Taiwan has changed its pattern of economic development, leaving the era of high economic growth and gradually entering the period of moderate growth. Prior to 1987, Taiwan's economic growth rate averaged 8.8 percent. Its economic growth rate dropped from 11.87 percent in 1987 to 7.84 percent in 1988. Later, its rate of economic growth had always hovered near 7 percent until 1991, when it scored an average rate of 6.88 percent. According to a forecast contained in Taiwan's Six-Year National Development Plan, Taiwan's average rate of growth will be 7 percent between 1991 and 1996. The rate of economic growth was 7.32 percent in 1991, fulfilling the set target. Due to a slump in exports, a slowdown in industrial production and decreasing public investments, Taiwan's "Directorate General of Budget, Accounting and Statistics" expected the island's economic growth rate to be 6.42 percent in 1992, but Taiwan failed to fulfill this target. Meanwhile, the Directorate General also predicted that on the basis of the estimated rate of growth in manpower and productivity, the average economic growth rate of Taiwan should be between 6.2 percent and 6.8 percent in the next 10 years, which is lower than the 7 percent target set by the Six-Year National Development Plan. This shows that in the future, it is unlikely Taiwan will again achieve a double-digit growth rate such as it experienced perviously, and that most likely it will steadily grow at a moderate speed. Naturally, if any major incident occurs on or off the island, Taiwan may experience a major recession or a comparatively higher growth within a year or two, but most probably it will grow at a moderate speed. This is the basic trend of Taiwan's economic

development and also an important symbol which indicates that Taiwan's economic development is entering a stage of maturity.

If Taiwan's annual rate of economic growth is between 6 and 7 percent and its exchange rate remains steady, its per-capita GNP will still increase on a large scale in the 1990's. According to an estimate of the Six-Year National Development Plan, Taiwan's per capita GNP may reach \$14,000 by 1996, placing it among the top 20 in the world. If this figure is increased by \$700 per year, its per capita GNP may reach \$17,000 by the year 2000.

Economic growth and the changes in per capita GNP are closely related with commodity prices. In recent years, the prices of import and export goods and retail prices of commodities have been fairly low in Taiwan. According to an estimate made by an international economic institution, the prices of raw materials and energy will be relatively stable on the world market in the 1990's. In addition to the gradual lowering of Taiwan's customs duties, this situation will be conducive to stabilizing prices in Taiwan. However, the price of land and the cost of labor continue to rise. This is unfavorable to price control. Typhoons and storms often hit the island, causing food and vegetable prices to jump and the consumer price index to continuously increase. The consumer price index from January through August 1992 was 4.9 percent higher than that of the same period in 1991. Taiwan's consumer prices will continue to increase in the 1990's and exceed the 3.5 percent target set by the Six-Year National Development Plan. Nevertheless, this increase will not be excessive; it will be around 5 percent.

B. When the economy is becoming more liberalized, the liberal market economy system can be more or less established. Taiwan's economic system is a typical "national monopoly capitalist economic system" formed under a special environment during the Cold War era, but it differs from the developed capitalist nations in the West. It has many features of the autocratic rule of the East and those of socialist planned economy. It calls itself "planned market economy."

Since the beginning of the middle 1980's, Taiwan has formulated its strategic principle of "liberalizing, internationalizing and institutionizing" its economy, and energetically carried out economic reform. It has gradually done away with its outmoded economic operating mechanism and forged ahead toward the system of a liberal market economy. This trend is manifested as follows:

1) It liberalizes interest rates, lets the market determine the interest rates, relaxes control on foreign exchange, and permits the establishment of private banks. It also allows foreign capital to enter Taiwan's capital market. In basic banking operation, it promotes liberalization and internationalization. Right now, Taiwan is making preparations to set up a Taipei International financial

center. This will turn Taiwan's financial market into something like an embryonic developed nation.

2) The role of public enterprises in economic activities is weakening, and private enterprises will become a dominant force in Taiwan's economy. In the past, in order to control the lifeline of Taiwan's economy, the Kuomintang had turned the large number of enterprises which it took over from the Japanese colonial government into public enterprises. In addition, when the Kuomintang first arrived in Taiwan, the private sector was financially weak. Nor was it willing to make investments. The "government" made investments itself and set up many enterprises, forming a massive economic system with public enterprises as its dominant part. Since public enterprises were monopolistic in nature, they had no competitors. Their management was poor and efficiency low. It also undermined the market competition mechanism. Since the 1980's, a tide of turning public enterprises into private ones was gradually formed in the world. In order to keep pace with the trend and coordinate with the overall economic development, Taiwan had also begun to promote the privatization of its public enterprises since late 1980's. In July 1987, the relevant department in Taiwan established a "special team for promoting privatization of public enterprises." On 5 June 1991, Taiwan's "Legislative Yuan" adopted the "Draft Revised Regulations for Privatization of Public Enterprises," and listed some 20 public enterprises including the China Shipbuilding Corporation and the China Chemicals Corporation as the first batch of public enterprises to be turned into private ones. Taiwan adopts the form of selling out government shares of the public enterprises and keeps the ratio of the government shares below 50 percent. Meanwhile, it opens up the trades that were once monopolized by the public enterprises, and let the private sector to join their management. Since 1987, Taiwan had, one after another, let the private sector run gasoline stations, securities business, banking and other trades. In 1992, the Taiwan authorities had further decided to let the private sector run petroleum business under certain conditions, and planned to implement this decision in 1996. The China Petroleum Corporation is also listed as one of the public enterprises to become privatized during the second stage. By that time, private-run petroleum enterprises may import crude oil; and store and sell petroleum products. In addition, Taiwan's Ministry of Communications has agreed to let the private sector manage the more than 20 service projects around the Zhongzheng Airport. From this, we can see that privatization of public enterprises will continue in the 1990's, but public enterprises will remain existent. Particularly in the Six-Year National Development Plan, the share of government public investments will be considerably large, while investments of the private sector much smaller. Public enterprises will still play a decisive role in Taiwan's future economic activities.

C. The tertiary industry has become the dominant part of Taiwan's economy. Either in terms of its share of the work force or its output value, Taiwan's service sector

will exceed more than half of the entire industry in the 1990's. It will strive to achieve the goal of accounting for two-third of the whole industry, becoming the largest industry in Taiwan.

Between 1950's and 1960's, agriculture played a dominant part in Taiwan's economy. The net agricultural output value accounted for an average of 32.1 percent, and that of industry made up 23.3 percent of Taiwan's total real output value. The number of people employed in agriculture accounted for 51.6 percent and that in industry made up less than 20 percent of the total work force. From 1960's to middle 1980's, industry had gradually replaced the role of agriculture in Taiwan's economic activities. Between 1965 and 1985, the proportion of the real production output value of industry to Taiwan's GNP rose from 28.6 percent to 44.9 percent; and that of agriculture dropped from 27 percent to 6.9 percent. The proportion of the number of people employed in industry to the entire work force rose from 22.3 percent to 41.4 percent, and that of agriculture dropped from 46.5 percent to 17.5 percent. Particularly the proportion of the number of people employed in industry between 1975 and 1985 to the entire work force and the share of the net industrial output value between 1986 and 1987 of the GNP had not only exceeded those in agriculture, but also over taken these in the tertiary industry, ranking top of the three major industries.

Since late 1980's, Taiwan's industrial structure had begun to undergo the second major change with the service sector gradually replacing of industry in major economic activities. Taiwan had marched forward toward the era of placing emphasis on the service sector. The proportion of net output value in industrial production to the GNP in 1986 and 1987 once reached 46.8 percent and 47.5 percent respectively, ranking top in the three major industries. In the past, the share of the service sector of the GNP remained relatively stable around 45 percent. Since the beginning of 1980's, the share of the service sector of the GNP has rapidly increased and gradually exceeded those of industry and agriculture, marching toward a society where the service sector plays a predominant role. Its share rose to 47.4 percent in 1988, ranking top among all other sectors. It reached 51.2 percent in 1989, exceeding the sum of those of industry and agriculture. In 1990 and 1991, it reached 53.5 percent and 54.1 percent respectively. Meanwhile, the proportion of the number of people employed in service trades to the entire work force also continued to rise from 27 percent in 1952 to 31.2 percent in 1965 and to 41.1 percent in 1985, but it had always ranked second among the three major industries in terms of the number of people employed. In 1988, the share of the number of people employed in the service sector of the entire work force reached 43.7 percent, exceeding that of industry and ranking top among the three major industries for the first time. It reached 46.9 percent in 1991.

During the 1990's, following the upgrading of Taiwan's industries and the diversified development of its economy, the share of the real production output value

of the service sector in the GNP and the proportion of the number of people employed in the service sector will continue to increase. In accordance with general rules for economic development, the service sector usually ranks first among all other industries in a nation or a region where its economic development has reached a certain stage or when it has entered an industrialized society. According to the Six-Year National Development Plan, the target for the average growth rate of Taiwan's service sector is 7.8 percent, far exceeding the 6.9 percent growth rate set for industry and the zero growth rate set for agriculture. The average growth rate of the work force employed in the service sector will be 3.4 percent. By 1996, the share of the real production output value of the service sector in the GNP and the share of the service sector in Taiwan's total work force will reach 55.6 percent and 49.9 percent respectively. By the end of 20th Century, Taiwan will basically enter an industrialized society with its service sector playing the dominant part.

D. Taiwan tends to strike a balance between its imports and exports in foreign trade, and its pattern in economic growth is changing from one of satisfying internal needs to one of meeting both internal and external needs. Its market for foreign trade is also becoming more diversified. Prior to the middle 1980's, under the influence of the policy of "limiting imports while expanding exports," Taiwan's trade surplus sharply increased. It reached \$18.7 billion in 1987, mostly with the United States. This had caused a trade imbalance in Taiwan's foreign trade and created trade friction with the United States. Under this background, Taiwan had begun to readjust its strategy in foreign trade, energetically diversify its overseas markets, and open up its domestic markets. As a result, Taiwan's trade surplus began to drop, and its market for internal needs started to expand.

In the 1990's, due to changes of its internal and external environment, Taiwan's public investments will grow; people's consumption will increase; its internal needs will expand; its imports will grow; and its exports will relatively slow down. According to an estimate made by the Six-Year National Development Plan, the average annual rate of growth in exports will be 6.9 percent while that in imports will reach 10.0 percent. By 1996, Taiwan's exports will rise to \$122.08 billion and its imports to \$120.72 billion with its trade surplus dropping to \$1.36 billion. The share of this trade surplus of the GNP will drop from 6.1 percent in 1990 to 0.5 percent in 1996.

Due to this structural change in Taiwan's imports and exports, Taiwan has changed the pattern of economic growth from one of satisfying internal needs to one of meeting both internal and external needs. The status of its foreign trade, particularly exports, in its overall economy will decline. Foreign trade will no longer become the main force in stimulating its economic growth. In early 1980's, the share of Taiwan's foreign trade in its GNP once reached its peak about 85 percent. It rose to 95.6 percent in 1980. It dropped to 78.9 percent in 1987. This was the first time that it dropped

below 80 percent since the middle of 1970's. It further declined to 75.4 percent in 1990. The share of Taiwan's exports of the GNP was 51.9 percent in 1987, the highest in history. It started to decline afterwards. It dropped to 48.2 percent in 1988, and further tumbled to 41.6 percent in 1990. On the contrary, Taiwan's internal needs gradually replaced the export of commodities and labor force to become the main force in promoting its economic growth. Taiwan's rate of economic growth was 12.57 percent in 1986, of which 5.19 percent was contributed by the domestic sector and 7.38 percent contributed by the overseas sector. In 1989 and 1991, Taiwan's economic growth rates were 7.33 percent and 7.24 percent respectively, of which the domestic sector contributed 9.1 percent and 7.27 percent respectively while the overseas sector contributed a negative or - 1.8 and - 0.03 percent respectively (Hong Kong UNITED DAILY 23 November 1992).

With the promotion of the Six-Year National Development Plan, on the one hand, the imports of raw materials, semi-finished products, machinery and other equipment will increase on a large scale, people's consumption may further expand due to their increased income and the opening of the market, and Taiwan will rely less on its trade surplus and export market. On the other hand, many major public projects have already started. The expansion of public investments will further stimulate private investments. Taiwan's internal needs with public investments playing a dominant role will become a major force in promoting Taiwan's economic growth in the future. According to an estimate, the share of Taiwan's internal needs of its GNP will rise from 92 percent in 1990 to 97 percent in 1996, and its trade surplus will drop from \$12.5 billion in 1990 to \$1.36 billion in 1996. The share of its trade surplus of its GNP will drop from 6.1 percent in 1990 to 0.5 percent in 1996.

In the 1990's, Taiwan's foreign trade will become more diversified. In the past, Taiwan's export market was highly directed at the United States, which accounted for 48.8 percent of its total exports in 1984. Taiwan's economic development is greatly affected by the U.S. market. In the late 1980's, Taiwan had readjusted its foreign trade policy, dispersed its export markets and diversified its overseas markets. The share of the volume of Taiwan's exports to the United States in its total exports gradually declined. It dropped to 38 percent in 1989, 32.4 percent in 1990 and 28.5 percent in 1991. The share of the volume of Taiwan's trade with the United States in the total volume of trade also continuously declined. It dropped from 38.4 percent in 1985 to 30.4 percent in 1989, to 28.2 percent in 1990 and to 26.2 percent in 1991. On the other hand, Taiwan volume of trade and the share of its exports to Europe and Asia continuously increased. The share of the volume of its trade with Europe increased from 12.5 percent in 1986 to 16.3 percent in 1989, 17.9 percent in 1990, and 17.2 percent in 1991. Its share of exports to Europe continuously rose from 8.87 percent in 1985 to 16.5 percent in

1989, to 18.2 percent in 1990 and to 18.4 percent in 1991. Taiwan's trade with other nations in Asia rapidly expanded because of the regionalization of the world trade and the development of the cross-straits economic and trade relations. The share of Taiwan's exports to Asia of its total volume of exports rose from 25.9 percent in 1990 to 40.8 percent in 1991, while that of imports increased from 44.5 percent to 46 percent. Taiwan's trading with Hong Kong and the mainland grew most rapidly. The share of its exports to Hong Kong rose from 7.7 percent in 1987 to 16.3 percent in 1991; and the share of its total volume of trade rose from 5.5 percent to 10.8 percent. In the 1990's, Taiwan's total volume of trade and exports to the United States will continue to grow, but their share will further decline. Meanwhile, the total volume of its trade with and exports to Europe and Asia as well as their share will increase, creating a situation whereby Europe, the United States and Asia share Taiwan's foreign trade market.

E. Taiwan has changed from capital import to capital export. In order to become export-oriented, Taiwan had set up a series of preferential policies to encourage investments from abroad since the 1960's, and Taiwan had gradually become a place to which developed nations such as the United States and Japan and others in Europe export their capital. Between 1952 and 1991, direct investments in Taiwan from foreign countries totaled \$15.03 billion. Foreign capital, bureaucrat capital and private capital had become the three major sources of capital. Foreign investments had played a significant role in developing Taiwan's economy. After the middle of the 1970's, Taiwan's exports had rapidly grown and gradually exceeded its imports. At that time, a small amount of capital began to move out of Taiwan. Nevertheless, the amount of capital flowing into Taiwan was greater than that flowing out of the island. Since the late 1980's, Taiwan started to implement its policy of liberalizing and internationalizing its economy. In 1987, it had officially lifted its restrictions over foreign exchange which it imposed for more than 30 years. With the readjustment of the industrial structure and the rapid appreciation of the new Taiwan dollars, enterprises began to make overseas investments one after another. Taiwan had changed from pure capital import to pure capital export. According to statistics on Taiwan's international revenues and expenditures, the amount of capital flowed out of Taiwan was \$7.5 billion in 1988, \$8.2 billion in 1989, \$10.7 billion in 1990 and \$4.7 billion in 1991, totaling \$31.1 billion in four years. Taiwan becomes an important source of capital in the world. Direct investment is the most popular form of Taiwan's capital export. According to information from the Ministry of Economic Affairs on the overseas investments it approved, Taiwan invested a total of \$1.87 billion in Indonesia, Thailand, Philippines, Malaysia, Hong Kong, Singapore, and other Southeast Asian nations between 1987 and 1991, 23 times of the amount of total investments made in the previous 28 years—\$78 million. During the same period, it invested \$11 million in Japan, \$1.43 billion in the United States and \$0.72

billion in Europe, equivalent to 11 times, 7.9 times and 11 times of Taiwan's investments in Japan, the United States and Europe between 1959 and 1986. However, according to statistics on Taiwan's international revenues and expenditures, Taiwan's overseas investments from 1987 and 1991 totaled \$19 billion, ranking 9th in the world just behind Japan, Britain, the United States, Germany, Holland, Canada and Italy. According to statistics compiled on investments made by Taiwan businesses and approved by the governments in Thailand, Malaysia, Philippines, Indonesia, Singapore and Vietnam, the total investments in these countries since 1987 reached \$12.1 billion. As of the end of 1992, investments from Taiwan businesses on the mainland also exceeded \$4 billion. From this, we can see that Taiwan's direct overseas investments are continuously expanding.

Another form of Taiwan's capital export is international economic aid to foreign countries. At the end of 1988, Taiwan raised \$1 billion to set up the "Taiwan Fund for Overseas Economic Cooperation and Development" aimed at providing economic and technical assistance to developing countries and regions. Recently Taiwan changed its policy for foreign aid. It changed its former pattern of extending loans to help develop a specific project to one of directly financing the local small and medium-sized enterprises. It also sent people out on an inspection tour and give economic aid.

In the 1990's, Taiwan's will need more capital to develop its own Six-Year National Development Plan. It may possibly reduce the amount of overseas investments, but the overall trend in Taiwan's capital export will not be affected. The reasons are as follows: 1) Taiwan's direct overseas investments constitute an inevitable phenomenon when its economic development reaches a certain stage. As long as Taiwan continues its economic development, it will never stop making direct overseas investments. 2) Taiwan has started to making indirect investments abroad with its abundant funds, purchased a large amount of U.S. bonds and engaged in the buying and selling of stocks and debentures in other regions. 3) In order to increase its prestige in the world, Taiwan will continue to increase its aid to other countries. Particularly the United States and other developed nations would also ask Taiwan to fulfill more international obligations, and expand its economic aid to other nations. From this, we can see that Taiwan's capital outflow will further expand in the 1990's.

F. The cross-straits economic relations will further develop in depth. Since the end of the 1970's, both sides of the Straits gradually resumed their economic ties and relations which were discontinued for 30 years. After a decade of developments, tremendous changes have taken place in the cross-straits economic relations. Both sides have established ties and relations with indirect trade and Taiwan businessmen's investments on the mainland playing the dominant part. These ties and relations involve banking and trading, cooperation in

science and technology, personnel exchange and information exchange. During the first half of 1992, the amount of cross-straits indirect trade reached \$25.6 billion, and the mainland has become Taiwan's fifth large market for trading. Taiwan businesses have invested in 5,517 projects on the mainland with the total negotiated value reaching \$4.75 billion. The mainland has become one of the important regions for Taiwan businesses' overseas investments. The cross-straits economic relations will be further developed in depth in the future because of the following reasons:

1) Major breakthroughs will occur in the 1990's for the regionalization of the economy in the Asian-Pacific Region. With the two sides of the Straits complementing each other economically and the continuous opening up of the huge market on the mainland, cross-straits trade will continue to grow on a large scale. At the current rate of growth, the volume of trade between the two sides may reach \$20 billion by the end of the century. 2) Changes in all domains have taken place in investments from Taiwan businesses on the mainland. Their investments in the real estate will continue to expand. They will operate in groups and on a large scale. With the continuous opening of the cross-straits policy, their investments with the service sector as the dominant part will reach a new height. While their investments on labor intensive industries are on the increase, their investments on capital- and technology-intensive industries will also gradually grow. While direct investments are on the increase, indirect investments will also be made on the stock and debenture market. 3) With the development of the cross-straits economic relations, the form of indirect and one-way trade and non-governmental contacts will be gradually replaced by that of direct and two-way trade. 4) The development of cooperation

between the two sides in the fields of science and technology, manpower, banking, energy and agriculture will bring about an overall development of the cross-straits economic relations.

G. Taiwan will play even more important role in the economic realm in the Asian-Pacific Region. After the end of the cold war, "geo-economic" interests have gradually replaced "geo-political" power in maintaining the world political and economic relations. Geo-economic interests will determine the interaction and development of political and economic relations of the world in the 1990's. Taiwan which is located in the middle of the "Asian-Pacific Maritime Economic Development Zone" will play an even more significant economic role in its own region in the future. The reasons are as follows: 1) Taiwan has become an increasingly important trade market in the Asian-Pacific Region. It is working hard to join GATT and promote economic liberalization. It will further open up its markets for more imports. With the development of the Six-Year National Development Plan, its markets will expand, and it will increase imports from the Asian-Pacific Region. Meanwhile, Taiwan's overseas investments are mainly in the Asian-Pacific Region. Its exports of semi-finished products and manufactured goods to this region will continuously increase. 2) With the continuous increase of Taiwan's investments in this region, it will play an important role in financing. 3) Taiwan has already become the second largest stock market in Asia. Right now it is quickening its tempo to turn Taiwan into an international financial center and a cargo transshipment center in the west Pacific. There is also a trend to regionalize the new Taiwan dollars. It is predicted that by the end of 1990's, Taiwan will become a new international financial center in Asia.

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